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Politics this week

Jun 30th 2005
From The Economist print edition

AP

Iran's president elect

Mahmoud Ahmadinejad, a religious conservative who is close to **Iran's** supreme ruler, Ayatollah Ali Khamenei, easily won the run-off to become the country's president. He trounced a former president, Akbar Hashemi Rafsanjani, getting more than 17m votes to his rival's 10m.

See article

Iraq's members of parliament were set to widen a committee drafting a permanent constitution in order to include more Sunni Arabs, who have provided the core of the insurgency. At the same time, the American defence secretary, Donald Rumsfeld, said that some of his senior officers had been negotiating with certain insurgents.

See article

The **Congress of South African Trade Unions** organised nationwide protests against job losses, claiming that 2m workers came out on strike. But employers put the figure at around 700,000. Meanwhile, South Africa's former vice-president, Jacob Zuma, appeared briefly in court on corruption charges before being released on bail.

Uganda's parliament voted overwhelmingly for a constitutional amendment to let President Yoweri Museveni stay longer in office; the present constitution says he should stand down next year.

See article

As peace talks over **Sudan's** troubled war-torn province, Darfur, resumed in Nigeria, rebels from the east of Sudan reignited a conflict against the government in Khartoum, attacking army camps on the Red Sea coast.

Under pressure from the United States, **Israel** intimated that it would cancel a contract with China to upgrade anti-radar drones and would let the Americans monitor and veto future Israeli arms deals with “countries of concern”, including China and India.

Hands across the oceans

India and **America** signed an agreement strengthening their defence ties. It will remain in force for ten years and facilitates joint weapons production, co-operation on missiles and technology transfer.

Gloria Arroyo, the president of the **Philippines**, said that her husband was leaving the country. He has often been accused of influence-peddling, and Mrs Arroyo said the move would allow her husband to “remove himself from any situation which will cast doubts on my presidency”.

Japan's Emperor Akihito paid tribute to the victims of fighting—locals, Japanese, Americans and Koreans—on the Pacific island of Saipan during the second world war. It was the first trip by a Japanese monarch to such a battlefield outside Japan.

Enemy fire was thought to have brought down an American Chinook helicopter in eastern **Afghanistan,** killing 17 people.

See article

Pakistan rearrested 14 men allegedly involved in a gang-rape case that sparked worldwide outrage.

Gay wedding march

Canada's House of Commons approved a controversial government-backed bill to legalise same-sex marriage. Canada will now join Belgium, the Netherlands and **Spain,** which unexpectedly became the fourth country to legalise gay nuptials this week.

Mexico's Congress approved a measure to allow Mexicans living abroad to vote in next year's presidential election. The measure will apply only to those registered to vote in Mexico, who will be allowed to cast postal ballots.

In **Colombia**, 19 soldiers were killed when FARC guerrillas attacked a convoy in Putumayo department, near the border with Ecuador. Another six soldiers died in a clash with FARC fighters blocking a road close to Venezuela.

AFP

Venezuela's president, Hugo Chávez, signed an energy co-operation agreement with leaders of 13 Caribbean countries, including Cuba's Fidel Castro. Under the pact, Venezuela will supply subsidised oil to its neighbours.

See article

Political prerogative

Manoeuvring to form a coalition government continued after the election in **Bulgaria**. The Socialists topped the poll with 31%, but they may yet allow the incumbent prime minister, Simeon Saxe-Coburg, to continue in office if they can strike the right deal with his party.

See article

Spain's last political tie to the Franco era was cut with the defeat of 82-year-old Manuel Fraga in **Galicia**. His People's Party lost a swing seat this week after failing to win enough overseas votes.

An **Italian judge** triggered a row with America by issuing arrest warrants for 13 suspected CIA agents accused of kidnapping a terrorist suspect in Milan in 2003. The Americans call the practice “extraordinary rendition”, not kidnapping.

See article

A border treaty between **Estonia** and **Russia** may come to nothing after the Russian government withdrew its signature when the Estonian parliament added language critical of the 1940 occupation of Estonia by Soviet forces.

The European Commission put forward a framework for EU membership talks with **Turkey**. The commission wants the talks to begin as planned on October 3rd, despite misgivings in several countries, notably France, Germany and the Netherlands.

Rallying the people

In a speech broadcast from Fort Bragg, North Carolina, **George Bush** urged the American public not to lose faith in the Iraq war, claiming it was part of the war on terror. Democrats criticised him for bringing in September 11th.

See article

The White House confirmed that it would implement the recommendations of a commission that reported in March to restructure America's intelligence capabilities regarding **weapons of mass destruction**.

The Supreme Court wrapped up its term by issuing divided rulings on the public display of the **Ten**

Commandments. The Court decided that framed copies of the Commandments in a Kentucky courtroom violated the doctrine of separating church and state, but that a monument at the Texas Capitol was an acceptable tribute to America's legal history.

Officials unveiled a new design for the **Freedom Tower**, which will be built on the site of the World Trade Centre in New York (scheduled for completion in 2010). The original plans were redrawn because of concerns that the base of the skyscraper was not secure enough from terrorist attack.

Getty Images

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Business this week

Jun 30th 2005
From The Economist print edition

A bad week for pirates

America's Supreme Court ruled that **"peer-to-peer"** file-sharing companies promoting the illegal downloading of film and music over the internet can be sued for encouraging the breaching of copyright laws. The case, brought by MGM against **Grokster** and **StreamCast Networks**, is a victory for the entertainment industry in its efforts to halt online piracy.

See article

The Supreme Court also ruled, in a separate case, that cable operators in America did not have to open their **broadband-internet** lines to rivals. Consumer groups said that competition among internet service providers will suffer.

See article

Advanced Micro Devices launched an antitrust lawsuit against **Intel**, accusing the world's largest chipmaker of forcing illegal inducements on computer manufacturers to create a monopoly in the x86 microprocessor market. Intel was scolded by Japan's Fair Trade Commission in March for its system of rebates to computer-makers.

The United States won an appeal at the World Trade Organisation that lets it continue to place countervailing import duties on DRAM memory chips made by **Hynix Semiconductor**. America imposed the tariffs in 2003, alleging that the South Korean firm had received illegal government subsidies to save it from bankruptcy in 2001.

PartyGaming, the world's leading online poker site, made its debut on the London Stock Exchange. The company, based in Gibraltar, has had a controversial flotation in part because of questions about the legality of its revenues from the United States. However, shares in the firm jumped by 11% on the first day of trading.

Scrushy uncrushed

Richard Scrushy, the founder and former chief executive of HealthSouth, was cleared of all charges in a federal trial relating to a $2.7 billion accounting fraud at the health-care company. Mr Scrushy was the first chief executive to be charged with knowingly filing false statements under the Sarbanes-Oxley act.

See article

Calisto Tanzi, the founder and former chairman of **Parmalat**, was ordered by an Italian judge to stand trial in September (along with 15 others) on fraud charges related to the bankruptcy in 2003 of the dairy company. The judge sentenced 11 people in the same case this week under plea-bargain deals.

Boeing named James McNerney, boss of 3M, as its new chairman and chief executive. He previously ran General Electric's jet-engine business.

Bank of America said it would buy **MBNA**, a leading provider of credit cards, in a cash-and-stocks deal worth $35 billion.

See article

Citigroup was fined £14m ($25m) by Britain's Financial Services Authority for failing to conduct a

controversial euro-zone bond deal last August with “due skill, care and diligence”. Regulators in Belgium, Portugal and Italy are continuing with their own investigations of the case.

The end of eras

The **Chicago Board of Trade** said it had received expressions of interest in a possible “business combination” from un-named parties. Rumours focused on its local rival, the Chicago Mercantile Exchange. Last week, the CBOT's members voted to proceed with a stockmarket flotation that will end its 157-year history as a members-only club.

Shareholders of **Royal Dutch/Shell** in London and The Hague approved a plan to unify the group's dual-ownership structure into a single company and trade as one entity. The measure is partly a response to criticisms that the split management of the group, in place since 1907, failed to respond adequately to the company's recent problems over its oil reserves, which have been restated five times since January 2004.

China National Offshore Oil Corporation sent an open letter to the United States Congress offering assurances that the firm's bid for **Unocal** would not affect American jobs or security. Politicians have raised a ruckus since CNOOC announced its $18.5 billion bid for the American oil company last week.

See article

Deals galore

Dealogic, a research group, reported that the value of global **mergers and acquisitions** in the first half of 2005 had risen by 35%, to $1.3 trillion, compared with the first half of 2004. The Asia-Pacific region saw the largest increase in value, by 57%, mainly because of increased activity in Japan—China recorded a fall of 18%. Private equity accounted for 15% of global deals and increased by 80% in the second quarter of 2005, compared with the first quarter.

Target countries for M&A deals
1st half 2005

Rank	Target	Value $bn	% change*
1	US	545.1	25
2	Japan	128.5	133
3	Britain	107.8	69
4	Italy	81.9	409
5	Germany	72.8	110
6	Netherlands	30.3	65
7	Canada	29.0	9
8	Australia	27.2	-26
9	France	25.7	-76
10	Spain	23.0	158

Source: Dealogic *On a year earlier

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Letters

Jun 30th 2005
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
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Trade and Central America

SIR – You give tepid support to the economic benefits of the Central American Free Trade Agreement on the ground that the combined output of the six Central American countries (including the Dominican Republic) is only $85 billion ("The CAFTA conundrum", June 18th). Yet these six nations constitute our second-largest export market in Latin America (behind Mexico), buying $15 billion-worth a year from us, on a par with France. As important, the accord encourages transparency, respect for property and the rule of law. This will promote outside investment and give a welcome boost to the six economies, while strengthening governments close to our shores. In my view, CAFTA is entitled to substantial applause on its own merits.

Carla Hills
Former United States Trade
Representative
Washington, DC

SIR – A few weeks ago you published an article examining the United States' relationship with Latin America ("Trouble in the 'backyard'", April 30th). Immediately below the title, a rubric stated indignantly, "Just stop calling it that". However, in your recent leader on CAFTA you lament the possibility that Congress may reject a free-trade agreement "in its own back garden". The slight difference in terminology aside, apparently *The Economist* finds it difficult to break bad old habits too.

Anthony Clare
Baghdad, Iraq

Meritocracy and education

SIR – Lexington offered us his thoughts on class in America (June 11th). But while it is true that attendance at elite American universities is farther out of reach for lower-income students, it is certainly not the case that a college education is farther out of reach. College attendance continues to rise and is currently at record levels. If anything, the greatest advances in access have been to the benefit of lower-income and under-prepared students as there has been a proliferation of high quality two-year junior and community colleges that cater to such students. Often, attendance at these schools is a stepping stone to more traditional four-year universities. I'm sure most parents would wish their children an education at Harvard, but the vast majority of the college-educated in America receive their education outside of the Ivy League—and they are the individuals most responsible for America's economic success.

A.J. Kreider
Miami

SIR – People buy their school quality with their house price and wealthy communities will always have more resources to expend on the education of their children. Such towns have more stay-at-home parents who volunteer in schools and more opportunities for holidays that enrich their children than are available to poorer communities. Until there is substantial redistribution of wealth from rich to poor school-districts, the gap will only grow wider.

David McCormick

Acton, Massachusetts

Olympic history

SIR – You describe next year's Commonwealth Games in Melbourne as "the biggest event in its history" ("Murder and market forces", June 18th). As a Commonwealth citizen, I'm glad that you hold the games in such esteem, but am slightly puzzled as to how they managed to eclipse the 1956 Melbourne Olympics.

Angela Gilham
London

Oh, what a lovely war

SIR – Just as probable an explanation for declining public support in America for military involvement in Iraq might be the very success that George Bush's administration has had in preventing another attack by Islamic terrorists on American soil ("That not-winning feeling", June 18th). As the memories of September 11th 2001 fade, so does tolerance for American casualties in Iraq and Afghanistan.

Ivaylo Ivanov
Salt Lake City

SIR – Americans will indeed accept heavy casualties to prevent another September 11th. However, Iraq had nothing to do with those atrocities.

Ilya Shlyakhter
Princeton, New Jersey

SIR – Let's face it—the United States initiated an abominable war in a country they knew little or next to nothing about. The egregious situation that is Iraq was created by insensitivity toward, and lack of understanding of, Middle Eastern culture. It is only common sense to know that this is no way to introduce democracy.

Rhona Kelly
Roberts Creek, Canada

SIR – America must be careful not to let Iraq turn into another Vietnam and so help regenerate the lowliest scum of the human race that brought about the worst cultural period in American history. Hippie clothing (those long, trashy skirts) and peace signs are already making a comeback. God, please let it stay at that before I have enough and move to Europe.

Alan Raye
Jacksonville, Florida

Online copyright issues

SIR – You misrepresent the music industry's view of the OECD's report on digital music, and in doing so you make the report seem more groundbreaking and more adverse to the music industry than it actually is ("Twist and shout", June 11th). We actually think the report is a mixture of good and bad that, among other things, recognises the success of legitimate digital music services and the need to deal with the huge problem of internet piracy. However, the report has flaws too. Its doubts on the extent of the link between illegal file sharing and falling music sales run against practically all other independent research. Moreover, its assessment of file sharing has a gaping omission. No one, least of all the music industry, disagrees that file sharing is a new and innovative technology. Record companies are working to use it legally and commercially to get music to consumers. But the OECD has missed a simple and critical point—namely, that the vast bulk of the file sharing that happens today is unlawful and infringes copyright.

John Kennedy
International Federation of the Phonographic Industry
London

Egg on our face

SIR – You say that Leonardo da Vinci didn't use the customary egg tempura when he painted the "Last

Supper" ("When modern art shows its age", June 11th). "Tempura" is a Japanese dish of deep-fried vegetables and shellfish. "Tempera" is the method of painting with pigments dispersed in an emulsion miscible with water, typically egg yolk. The penultimate vowel makes all the geographical, cultural and artistic difference.

Dan Barker
Oxford, Oxfordshire

Trouble and strife

SIR – I find your report that it costs 5,000 pesos ($93) to hire an assassin in the Philippines to be an exaggeration ("Watch what you write", June 18th). My wife assures me that she can have me put away by any number of likely lads whenever she wishes for an absolute maximum of 2,000 pesos.

Tom Young
Manila

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Helping Africa

Helping Africa help itself

Jun 30th 2005
From The Economist print edition

Lots more money for Africa will not make poverty history. But it might just do some good

Das Fotoarchiv

MIGHT the battle against global poverty be won on the putting greens of Gleneagles? That is the hope of the many campaigners gathering outside the swanky Scottish hotel and golf club where the rich world's leaders are meeting at next week's G8 summit. The deployment of 10,000 police suggests that Britain's bobbies expect trouble. But even if the protesters stay behind the barricades and off the fairways, the presidents and prime ministers representing the G8 countries are already under pressure after months of publicity for a campaign calling on them to “make poverty history”.

The campaigners pin their hopes on a doubling of aid to Africa. Tony Blair, who is hosting the G8 summit, has put the continent at the top of its agenda. Two big reports, from the United Nations Millennium Project, led by Jeffrey Sachs, and from Mr Blair's own Commission for Africa, provide the numbers to back the appeal.

But none of the signal events in the recent history of poverty eradication depended on the generosity of strangers. China's first cautious turn to the market in 1978; India's nod to entrepreneurship in 1982; Vietnam's *doi moi* reforms of 1986—all of these were homegrown policy reforms which allowed countries to get richer by making money, not by receiving it.

Some say aid is useless. Some say it is worse than that. Economists worry that it crowds out export industries, by, for example, bidding up the price of skilled workers. And aid may make governments dependent on their paymasters in the rich world, not their taxpayers at home. For every extra dollar of aid they are given, governments raise 28 cents less in tax, says Sanjeev Gupta, of the IMF.

The favoured few

If aid rarely “buys” growth, can it buy the reforms that do? That was the hope in the 1980s and much of the 1990s. Money was given on the condition that prices were stabilised, markets liberalised and industries privatised. But the easy reforms have been done, and the hard ones are too intractable. The vogue now is for “ownership” and “partnership”. Countries are supposed to devise their own strategies for fighting poverty, in wide consultation with something called civil society, and then invite donors to back them.

The shift in fashions should not be exaggerated. Where before, donors told governments what to do, now governments largely tell donors what they want to hear. Yet this approach has some promise, particularly if it encourages donors to pool their efforts, rather than tripping over each other's pet projects.

How many countries are worth backing in a big way? Mozambique is everyone's favourite example. Recovering from war, it received aid worth half its national income in the mid-1990s. It has grown quickly and become less dependent on aid in recent years, not more. Ghana is usually second on the list. Its economy has grown steadily and its government has also raised more in tax revenue, not less, since the aid started flowing. Others could join the queue—Tanzania, Ethiopia, for instance—with some ifs, buts and wait-and-sees.

The claims for aid should not be inflated. Grand, global targets, such as the UN Millennium Development Goals, might help the international bureaucracies fill their coffers and justify their existence. But they also invite disappointment and disillusionment when the goals are missed.

But neither should the demands be exaggerated. The sums (the Commission for Africa calls for an extra $25 billion a year over the next three to five years) amount to just 0.08% of the 22 richest donors' combined GDP. And besides, what else would this money be spent on? The European Union alone wasted $55 billion last year on a common agricultural policy designed to keep food expensive for its consumers.

How to spend it

Last year, this newspaper supported a brassy but revealing initiative, dubbed the Copenhagen Consensus, to set priorities for aid (see articles). Asked how they would spend $50 billion, a group of economists had little trouble burning through the cash. A large chunk was earmarked for HIV/AIDS prevention; some to combat malaria and malnutrition. The projects backed in Copenhagen demand relatively little of the governments that would have to implement them, and thus reflect one of the key lessons that have been learned from the many mistakes donors have made over the years (see article).

To benefit Africa, the money need not even be spent in Africa itself. It is sometimes said that 90% of the $75 billion spent each year on medical research is devoted to the concerns of just 10% of the world's population. A hefty sum could be spent shifting the priorities of the rich world's laboratories—and, thanks to Bill Gates, that's happening (see article).

Research into new crop varieties needs to take place closer to the ground, so to speak. More money spent fomenting a second Green Revolution could bear fruit—as well as more maize and wheat. Even the chronic insecurity that blights parts of Africa is no excuse for tight-fistedness. Well-timed, well-armed peacekeeping missions, such as Britain's sortie into Sierra Leone, can cost hundreds of millions. But peace can bring economic benefits many times greater.

The aid sceptics—some of them veterans of the industry, their palms calloused from many previous bouts of hand-wringing over Africa—have all the best lines in the debate. Everything has been seen before, they say, nothing has worked. But what do they mean precisely? Do they mean that the World Health Organisation should abandon its efforts to put 3m HIV-carriers on anti-retroviral therapies? Perhaps those already on the drugs should hand them back, lest they succumb to “dependency”. Should Merck stop donating its drug, ivermectin, to potential victims of riverblindness? Let Togo reinvent the drug itself! Perhaps, in the name of self-reliance, Tanzania's government should stop giving pregnant women vouchers to buy mosquito nets. Get sewing, ladies!

No one should be naive about aid. It cannot make poverty history, and it can do harm. But to say that nothing works is wrong. Cynicism is only the most common form of naivety.

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ID cards

Mistaken identity

Jun 30th 2005
From The Economist print edition

Before issuing Britons with identity cards, the government should decide what they are for

IF YOU have ever had trouble getting a book out of the library, Tony Blair has just the thing. A national identity card, as proof of who you are, could make life so much simpler—and it would foil terrorists, nobble benefit cheats, exclude illegal immigrants, end identity theft and "improve community relations" to boot. At a cost of a mere £6 billion ($11 billion) or so, who could possibly be against that?

Plenty of people, as it happens. As Britain rushes towards a national identity card, civil-liberties groups and MPs have this week been raging against the assault to the nation's ancient freedoms and the ushering-in of a Big Brother society. They are right to be fearful, but for a more prosaic reason—that by loading the card with a shifting series of ill-thought-through uses ministers will achieve little and waste lots of money.

Blind data

British governments have a long history of proposing a national ID card, only to back down at the first whiff of dissent. Ever-cheaper computer technology and political momentum mean this government is likely to stay the course. The chances of that received a boost this week when Labour won a parliamentary vote on an ID-card bill. Now the legislation will pass to the House of Lords and to Commons committees, where it will face more hostile scrutiny.

The card's parliamentary opponents levelled two charges against it: that it imperils freedom and that it will cost too much. The threat to privacy, they say, stems from the sinister power that a national identity register could one day grant an overweening state. Few people would be happy for the tax authorities to know about their foreign travel, or for police officers to have routine access to their mental-health records. Even if this government pledges to respect its citizens' privacy, what about the next lot?

Yet people traded their privacy for convenience long ago. Britons walking streets monitored by close-circuit television freely brandish mobile phones that track their movements and credit cards that record everything they buy. A determined government can already exploit the country's computer networks to pry into its citizens' lives. Liberty depends upon the rules governing the use of this data, not ID cards.

The real complaint against the cards is that they risk being a huge waste of money. Certainly, they will be expensive, though nobody knows how expensive. The London School of Economics estimated this week that the cost will be at least twice the government's reckoning—and possibly much more.

Even if the scheme costs £6 billion over the next decade, as the government predicts, Charles Clarke, the home secretary, needs to show it offers value for money. ID cards can inconvenience terrorists only if they are compulsory, but at the start they will be voluntary. Because there will be no requirement to carry the card, illegal immigrants can abscond before the deadline to present it at a police station. Most benefit fraud is through fake claims, not multiple identities. Irish citizens, who have free access to Britain, will not have the cards. Faced with such arguments, Mr Blair was left to claim lamely that the cards would help people “get around more easily”.

ID cards are a costly technology looking for an application. The billions they will cost could buy a lot of anti-terrorist police and benefit inspectors. The government must make a stronger case before it spends its citizens' money on them.

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China and Unocal

Never give a sucker an even break

Jun 30th 2005
From The Economist print edition

A good motto for American capitalism, especially if the buyer is owned by the Chinese state

THERE is something drearily predictable about xenophobic protectionism. In the late 1980s, when Japanese companies were busy buying up the Rockefeller Centre, tyre-makers and movie studios (or "invading Hollywood" as one news magazine proclaimed on its cover), howls went up that America was selling off its birthright. Japanese *keiretsu*, backed by their inscrutable government, were trampling over naive market-trusting Americans, especially in high tech. That was the constant refrain from Congress—and it was spectacularly wrong. A decade later, the Japanese stockmarket had halved in value and those naive American geeks were billionaires.

You might have imagined that both Asian investors and American politicians would have learnt from this. Yet history is repeating itself. Chinese companies are now on the prowl, snapping up companies they know relatively little about at suspiciously high prices (see article). Meanwhile, Sinophobia is brewing on Capitol Hill. The Chinese, their accursed low currency and their fiendish habit of making cheap goods which American consumers like buying are to blame for jobs lost in the heartland, the trade deficit and much, much more.

Now the protectionists have a talismanic deal to match Sony's takeover of Columbia Pictures in 1989. The China National Offshore Oil Corporation (CNOOC), which is 71% government-owned, is in negotiations to buy Unocal, America's eighth-biggest oil company, for $18.5 billion—trumping an earlier $16.4 billion bid from Chevron. More than 40 congressmen have already signed a letter calling on the Bush administration to consider blocking this unfair deal which would endanger America's fabled "energy security". In fact, the only people who should be worried about it are the Chinese.

CNOOC is certainly controlled by an unpleasant communist dictatorship. Yet for Americans to object to the regime buying American assets is farcical. Thanks to its policy of pegging the yuan to the dollar, China's central bank owns $230 billion of American government debt. If the Chinese government were to sell even a tenth of those bonds tomorrow, the effect on the dollar (and thus on America's economy) would be far more dramatic than anything it could do with Unocal. (Indeed, in one way, the investment in Unocal represents a prudent piece of diversification for the Chinese state.)

Wanna buy a bridge in Brooklyn?

That does not mean that the Chinese government should be allowed to do as it pleases. Given its militaristic edge and designs on Taiwan, there are good reasons for keeping China away from military technology; hence the sensible western embargo on arms sales, which Europeans foolishly want to break. But is America's security at stake with Unocal?

Here George Bush may still be seduced by his own rhetoric. Talk of making America "energy independent" any time soon is wholly misleading. Even if America were to restrain its enthusiasm for carbon fuels—and the most recent version of the energy bill shows no sign of that (see article)—it would still rely on oil imports, principally from the Middle East.

Unocal, which accounts for a tiny proportion of American energy production, does not make much difference either way. Besides, oil is a fungible, global commodity. Even if the Chinese were to ship all of Unocal's output back home, which is unlikely, it would replace other imports, making other sources of oil more available to America.

On the face of it, the best argument against CNOOC is that its bid is unfair, because it is being subsidised by cheap loans from the government. This is probably exaggerated: in the 1980s, the

Japanese were always accused of having access to cheap capital. But, to the extent it is true, it is surely a problem for the buyer (the minority shareholders and Chinese taxpayers), not the seller. It is in the interests of Unocal's shareholders to get the best price possible. As long as it is a competitive bid process, Mr Bush should keep out—just as the British government did when Electricité de France, a state-owned company, bought up British utilities rather too expensively.

It is not Mr Bush's job to protect suckers—be they Chinese or Americans. Even Chevron's shareholders, who think they deserve sympathy, should not worry too much. As plenty of Japanese investors can attest, it is sometimes better to miss out on the big deals.

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Copyright and the law

Rip. Mix. Burn.

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From The Economist print edition

Media companies are jubilant at a Supreme Court judgment, but Congress should take them on

AS USUAL, America's Supreme Court ended its annual term this week by delivering a clutch of controversial decisions. The one that caught the attention of businessmen, and plenty of music lovers, was a ruling concerning the rampant downloading of free music from the internet.

Nine elderly judges might have been forgiven for finding the entire subject somewhat baffling. In fact, their lengthy written decisions on the case betray an intense interest, as well as a great deal of knowledge. Moreover, they struck what looks like the best available balance under current laws between the claims of media firms, which are battling massive infringements of their copyrights, and tech firms, which are keen to keep the doors to innovation wide open (see article).

This case is only the latest episode in a long-running battle between media and technology companies. In 1984, in a case involving Sony's Betamax video recorder, the Supreme Court ruled that technology firms are not liable if their users infringe copyright, provided the device is “capable of substantial non-infringing uses”. For two decades, this served as a green light for innovations. Apple's iTunes, the legal offspring of illegal internet file-sharing, is among the happy results. But lately, things have turned against the techies. In 2000, a California court shut down Napster, a distributor of peer-to-peer (P2P) file-sharing software. It had, the court decided, failed to stop copyright violations (though the firm relaunched as a legal online-music retailer).

In its ruling this week, the court unanimously took the view that two other P2P firms, Grokster and StreamCast, could be held liable if they encourage users to infringe copyrights. The vast majority of content that is swapped using their software infringes copyrights, which media firms say eats into their sales. Although the software firms argued they should not be responsible for their customers' actions, the court found that they could be sued if they actually encouraged the infringement, and said that there was evidence that they had done so. On the other hand, the court did not go as far as media firms demanded: they wanted virtually any new technology to be vulnerable to legal action if it allowed any copyright infringement at all.

Turning customers into pirates

Both the entertainment and technology industries have legitimate arguments. Media firms should be

able to protect their copyrights. And without any copyright protection of digital content, they may be correct that new high quality content is likely to dry up (along with much of their business). Yet tech and electronics firms are also correct that holding back new technology, merely because it interferes with media firms' established business models, stifles innovation and is an unjustified restraint of commerce. The music industry is only now embracing online sales (and even experimenting itself with P2P) because rampant piracy has demonstrated what consumers really want, and forced these firms to respond.

The Supreme Court tried to steer a middle path between these claims, and did a reasonable job. But the outcome of the case is nevertheless unsatisfactory. That's not the court's fault. It was struggling to apply a copyright law which has grown worse than anachronistic in the digital age. That's something Congress needs to remedy.

In America, the length of copyright protection has increased enormously over the past century, from around 28 years to as much as 95 years. The same trend can be seen in other countries. In June Britain signalled that it may extend its copyright term from 50 years to around 90 years.

This makes no sense. Copyright was originally intended to encourage publication by granting publishers a temporary monopoly on works so they could earn a return on their investment. But the internet and new digital technologies have made the publication and distribution of works much easier and cheaper. Publishers should therefore need fewer, not more, property rights to protect their investment. Technology has tipped the balance in favour of the public domain.

A first, useful step would be a drastic reduction of copyright back to its original terms—14 years, renewable once. This should provide media firms plenty of chance to earn profits, and consumers plenty of opportunity to rip, mix, burn their back catalogues without breaking the law. The Supreme Court has somewhat reluctantly clipped the wings of copyright pirates; it is time for Congress to do the same to the copyright incumbents.

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Iran's nuclear politics

Mahmoud and the atomic mullahs

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From The Economist print edition

Iranians want a better life. Will their leaders let them have one?

AFP

VOTERS can be full of surprises, even in a theocratically managed semi-democracy like Iran's. The victory of Mahmoud Ahmadinejad, a former member of the hardline Revolutionary Guard, in last week's presidential election has deepened the gloom of reform-minded Iranians. Dirty tricks, a candidate list drawn up by Iran's self-appointed Guardians Council of conservative clerics, the exclusion of all women as candidates and then a run-off against a widely distrusted former president, Akbar Hashemi Rafsanjani, all contributed to Mr Ahmadinejad's surprising, if dispiriting, win.

His election has troubled Britain, France and Germany too. With America's support, they are attempting to negotiate Iran out of dangerous nuclear technologies for enriching uranium and making plutonium that it claims will be needed in future to keep the lights on, but that others suspect are designed to give the regime the bomb, or at least a quick option on one. That diplomacy now gets no easier. Although it is Iran's secretive mullahs, not its elected politicians, who decide nuclear policy, the new president-elect, who takes over in August, is known to be close to Ayatollah Ali Khamenei, Iran's tough supreme leader. Any flicker of a debate behind closed doors about the wisdom of Iran's nuclear ambitions and the price of sticking to them may soon be stilled for good.

Or will it? Many ordinary Iranians take pride in their country's determination to master modern technology, but they had a different set of concerns on their minds last week at the ballot box. With two-thirds of the population under 30, and too many (16% officially, though probably almost double that) out of work, many voters plumped for the populist-sounding Mr Ahmadinejad because he promised to tackle widespread poverty. Yet with its population growing faster than its sickly, largely state-mismanaged economy can keep up with, Iran needs more than just the more equal distribution of its windfall oil profits that Mr Ahmadinejad has talked about. It needs more trade and huge dollops of investment, including for its tired oil industry.

Much of that could flow from European companies and governments—and, eventually, even from America. But not if Iran insists on pursuing the dodgy nuclear technologies that it has lied to inspectors about for 20 years (its story still changes as more details of its moonlighting are discovered).

When they next sit down with Iran, later this month or early next, the Europeans will offer it a package deal. One aim is to puncture the myth, put about by Iran's leaders, that the perfidious West is driven purely by a determination to deprive the country of the benefits of nuclear power. In fact, neither uranium enrichment nor plutonium reprocessing is needed to generate electricity, as many governments

around the world can testify. Nor does the enormous cost of developing such technologies make economic sense if Iran's intentions are peaceful. The European trio will therefore propose safer sorts of nuclear co-operation with Iran, including ways to guarantee its access to civilian nuclear fuel under safeguards, from Russia (which is already committed to supply fuel to Iran's first and so far only nuclear reactor at Bushehr) and others.

Time to add up the costs

And if Iran's intentions are not so peaceful? Then it will brush aside all such offers. So the Europeans need to be just as clear about the costs if Iran does that. They have already said that if it resumes any part of its uranium-enrichment or plutonium-making programme, they will take the matter to the UN Security Council. Iran would prefer to avoid that, but it may be counting on vetoes from either Russia or China to dodge economic sanctions or worse. Russia, increasingly worried about a nuclear-armed Iran on its borders, has backed the Europeans so far. It could help more by working on China too.

The best hope for a peaceful outcome would be for all these countries to deliver the same tough message to Iran: that if it goes on enriching uranium, it can do so only by further impoverishing its economy; by seeing its trade curtailed, its hopes for big new investments dashed, its companies frozen out of world markets and even its oil receipts dwindling. Might such a combination of pressures on the government—from voters inside Iran, who want a better future, and from the Europeans and others offering one, or else—persuade the incoming Mr Ahmadinejad and the atomic ayatollahs of the need for a nuclear rethink? It is surely worth a try.

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Aid to Africa

The $25 billion question

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From The Economist print edition

Still Pictures

Years of mistakes have taught donors a bit about how to spend aid money better

THE itch is unremitting. Scratching brings little respite, but leaves lasting scars. A sufferer's skin will lose pigment, and his vision will begin to fail. Onchocerciasis—riverblindness—which once infected tens of millions of Africans living near the rivers that gave it its name, is caused by parasitical worms, carried from person to person by blackfly. The worms work their way through the skin and behind the eyes, blinding the most unfortunate of their victims.

No longer a scourge, riverblindness is now an icon: a symbol of what aid to Africa can accomplish. The campaign to fight the disease, launched in 1974, now spans 30 countries, counts on 26 donors, and benefits from worm-killing drugs donated by Merck, a pharmaceutical giant. By 2010 it will have cost $735m, according to a recent report by a team from the World Bank and the African Programme for Onchocerciasis Control.

The campaign has saved the sight of 600,000 people in west Africa and opened up 25m hectares of fertile, riparian land—a new frontier to plot, settle and sow. It achieved this despite one of Africa's other afflictions, bad politics. A military coup in 1978 threatened the campaign's air bases in Ghana, from which it carried out its aerial spraying of blackfly breeding grounds. In 1985, Burkina Faso and Mali fell out, closing their border. On both occasions, the campaign survived. But even aid's triumphs flirt with disaster.

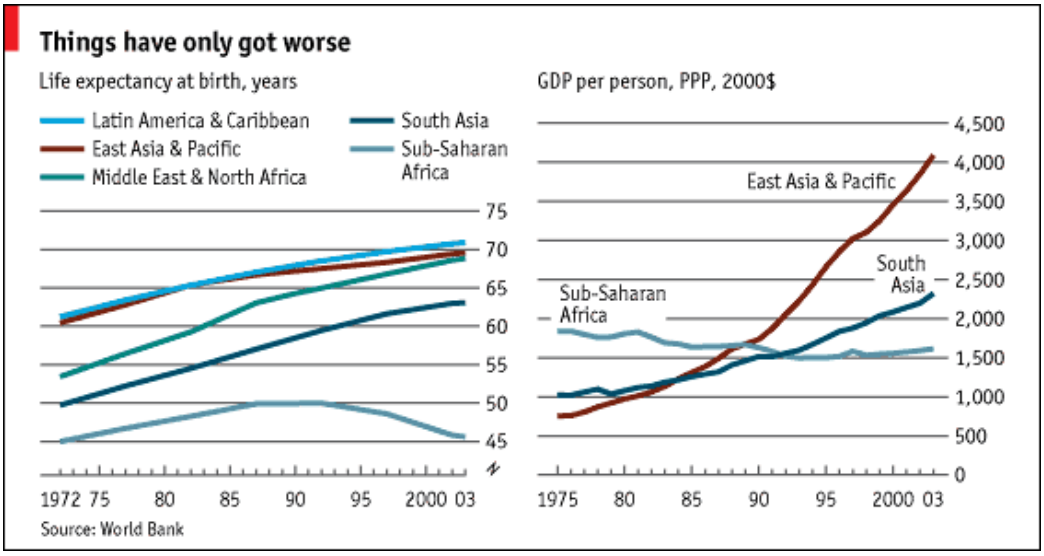
The Big Push

Sagas like these explain why the aid business suffers from a kind of manic depression, as Phyllis Pomerantz, a World Bank official, puts it in her recent book on the industry. In the 1990s, it endured listless donors and woeful budgets. But now the mood and the money are both on an upswing. Last year, the aid budgets of the big OECD donors increased to more than $78 billion, the highest dollar total ever.

Tony Blair, Britain's prime minister and chairman of the G8 summit, which meets in Gleneagles in Scotland from July 6th-8th, has put Africa at the top of its agenda. In March the Commission for Africa, which he set up, called for another $25 billion of aid to the continent each year for the next three to five

years. In January, the United Nations unveiled the results of its Millennium Project, which called for a doubling of aid worldwide. Based on a study of particular countries, this is its best guess at the cost of meeting the Millennium Development Goals around the world. These goals—set in a burst of enthusiasm almost five years ago, with a deadline ten years hence—include halving poverty and hunger, arresting disease and environmental degradation, helping new-born babies survive infancy and educating them in childhood. In September, the UN will meet again to check on progress.

At the present rate, Africa south of the Sahara will meet none of these goals. In many countries in the region, income per head has yet to regain levels reached in the 1960s. Life expectancy is in decline (see chart). According to Jeffrey Sachs, who led the Millennium Project, tropical Africa is caught in a poverty trap. Simply put, it is too poor to grow. The region is uniquely burdened by disease (its people account for 85% of malaria's annual death toll of 1.2m and 75% of the 3.1m deaths from AIDS last year). It is also disfavoured by geography (less than a quarter of sub-Saharan Africans live within 100km of the coast). As a result, it can attract and amass too little capital to support a growing population. Short of capital, it is too poor to save: its gross national savings were just 16% of GDP in 2003, whereas in East Asia they were 42%. And without sufficient saving, the region cannot overcome its shortage of capital.



To escape, Mr Sachs says, Africa needs a “big push”, which is to say big sums of foreign money. Only large amounts will do. This is development economics as rocket science: mix the fuels in the right quantities, and Africa's earth-bound economies will reach escape velocity.

On what might these sums be spent? Mr Sachs has plenty of ideas. In his recent book, “The End of Poverty”, he describes a visit to the villages of Sauri, Kenya, which his university, Columbia, has taken under its wing. He envisages a complete economic makeover for the villages. Leguminous trees planted alongside crops would fix nitrogen in the soil and raise cereal yields. The village clinic, padlocked and unused, would be re-opened. In the local school, the children would enjoy a full free meal to ease hunger and sharpen concentration; the adults would learn how to bore wells and harvest water. A village truck would carry goods to market and the sick to hospital. What should be done in these eight villages, Mr Sachs says, should be done on a continental scale.

The big push is an old idea. In the 1950s and 1960s, the World Bank lent money for large capital projects, such as dams and mines, to help poor countries fill the gap between their need to invest and their ability to save. Aid fuelled investment, which fuelled growth. Or that was the idea. If it had borne fruit, Zambian incomes would long ago have surpassed $20,000 per head, reckons William Easterly, a former Bank economist now at New York University. In fact, despite decades of aid, they are still less than $500. According to Mr Easterly, the West has spent $450 billion on foreign aid to Africa over the past 40 years. If that has not filled the gap, what will?

The Bank's thinking has now moved on. It worries less about filling a financial gap and more about improving a country's “investment climate”—the policies, regulations and institutions that can be kind or inhospitable to the spirit of capitalism. A new UN report reckons that Africans hold 40% of their financial portfolios overseas. Were Africa able to attract this money back, its private capital stock would increase by about two-thirds.

Size can matter in development. Some schemes to save mankind work on a grand scale, or not at all.

The fight against riverblindness had to wipe out blackfly larvae across great swathes of west Africa, lest treated watercourses suffer a reinvasion of flies from elsewhere. To be effective, the drugs it distributes must be taken by two-thirds of a village for up to 20 years.

Pricing hope

Foreign aid required to meet the millennium development goals, $ per person per year
2005-15

	Ghana	Tanzania	Uganda
Hunger	3.3	6.2	2.4
Education	11.8	7.8	6.7
Gender equality	1.5	1.6	1.4
Health	17.8	24.3	20.0
Water supply and sanitation	2.4	1.5	0.7
Energy	5.7	5.2	4.1
Roads	6.6	13.6	11.4
Total	**49.1**	**60.2**	**46.7**

Source: UN Millennium Project

But what is true of a particular aid effort need not be true for the entire continent. Unless Africa is trapped as Mr Sachs supposes, one need not feel bound by the precise sums he recommends. There need not be a specific quantity of aid below which it will do little and above which it will make all the difference. Sadly, one cannot name a magic number—$25 billion, $50 billion, or otherwise—that will push Africa over the threshold to prosperity.

Which is not to say such sums are wildly generous. The Commission for Africa's plea for $25 billion represents just 0.08% of the 22 richest donors' national income; the Millennium Project's ambitions require donors to raise their worldwide spending from just 0.25% of GDP to about 0.5% by 2015. America's post-war Marshall Plan for Europe, which Gordon Brown, Britain's chancellor of the exchequer, cites as inspiration, called, on average, on more than 1% of America's national income (albeit for only four years).

Big money's dangers

But though a fraction of G8 income, these sums are huge relative to the size of the African economies they would help. About a dozen African countries already depend on aid for a fifth or more of their national income. In the mid-1990s, Mozambique relied on it for more than half.

Raghuram Rajan and Arvind Subramanian of the International Monetary Fund worry that pushing too much aid into these countries too fast might bid up their real exchange rates, undermining the competitiveness of their export industries. They find some evidence that large aid flows retard the growth of manufacturing sectors, such as textiles and apparel—the vanguard of the industrial revolution in many countries, from Britain to Vietnam. But most of all, aid sceptics worry that aid is too easily converted into spoils at all levels of African society.

Not surprisingly, donors are often tempted to bypass governments altogether, importing their own teams. Many also enlist the help of “grassroots” non-governmental organisations (NGOs), which often sprout up, like plants in the sunlight, solely to bathe in this foreign money. This approach can yield results in the short run. It is also often the only option in countries riddled with corruption. But it can also cannibalise the state institutions on which any country must ultimately depend. A state without responsibilities will never be a responsible state.

Even if Africa's governments had the best will in the world, could they use such big sums of money? Aid wonks use sponge metaphors: a country can “absorb” only so much aid, even if the money flows as freely as water. Donor money helped Malawi's primary schools scrap their fees in the early 1990s. But the schools soon succumbed to “access shock”: 1.2m extra pupils sitting at the feet of teachers working double or triple shifts.

If donors think ahead only two or three years, such “capacity constraints” argue for spending less: why

pay for every child to go to school, if there is no one to teach them? But over a longer time-span, these constraints argue for spending more: why not train the teachers, as well as paying the fees? By 2001, for example, Malawi had more than 27,000 extra teachers. The World Bank estimates that a country such as Niger needs to train about 8,000 teachers a year from now until 2015 to meet its needs. It currently trains just a tenth of that number.

For the impatient, the Millennium Project offers a host of “quick wins”, relatively simple fixes that demand little of state machinery. Many of the gravest threats to public health, for example, can be fought without hospitals, highly trained clinicians or expensive medical equipment. “Barefoot doctors” will do. Besides, well-shod, well-trained doctors tend to disappear overseas. A third of Ethiopia's doctors left the country between 1988 and 2001, according to the World Bank.

The moral of bednets

Top of the list of quick wins are mosquito bednets, impregnated with insecticide. They cost less than $4 and cut the risk of infants dying by 14%, to 63%. The appeal is obvious and immediate. At the World Economic Forum in Davos this year, a speech on malaria by Benjamin Mkapa, Tanzania's president, prompted Sharon Stone, a Hollywood actress, to stand up, pledge $10,000 for bednets on the spot, and challenge her fellow audience members to do the same.

Sadly, this impulsive generosity will not be instantly gratified. Nets cost more to distribute than to make. Misguided policies can make matters worse. Nigeria, for example, has on various occasions imposed tariffs of up to 40% on imported nets to protect its own netmakers. Demand for the insecticide, with which many Africans are unfamiliar, cannot be taken for granted (less than a fifth of nets are retreated regularly) nor can demand for the nets themselves. The *Monitor*, a Ugandan newspaper, reports that a government official last month warned villagers not to turn their nets into wedding gowns.

So where are Ms Stone's nets now? In fact, the Tanzanian government has a sensible policy of not giving bednets away. To do so might crowd out the commercial sellers of bednets, who distribute them more efficiently than the public sector—and can be relied on to keep selling them, provided they can make a profit, long after celebrity donors have lost interest. Instead, the government hands out vouchers to pregnant women at antenatal clinics, covering much of the cost of the nets in the market.

The dilemmas of distributing bednets illustrate some general problems of aid. Donors muster resources, but they fail to align the incentives of the people providing them or benefiting from them. The grand macro-solutions often neglect the nagging micro-foundations.

The staff of rural schools and clinics, for example, have scant reason to do their job well. A study in Uganda led by Barbara McPake, of the London School of Hygiene & Tropical Medicine, found that in the typical public clinic, 76% of drugs “leaked” on to the private market, more than a quarter of them prescribed to “ghost” patients who did not exist. Donors, Ms McPake points out, would rather subsidise drugs than pay salaries. Hence health workers make their own money by selling the drugs for themselves. If they did not, the clinics might not have survived at all.

Clinics also levied “informal” charges on their patients, sometimes five to ten times the formal rate. Expectant mothers had to pay for the polythene sheet on which they gave birth; afterwards, they had to wash and return it. Patients who could not pay were routinely abused and occasionally assaulted. The authors heard of a newly delivered baby being “confiscated” until payment was made. Not surprisingly, the poor avoid public clinics if they can—which is just as well, because doctors staff them, on average, for fewer than 13 hours a week.

Such problems mostly surprise and appal donors. But they are predictable and systematic. A cadre of economists, such as Michael Kremer at Harvard, Abhijit Banerjee at the Massachusetts Institute of Technology (MIT) and the Bank economists who wrote last year's World Development Report, are busy working out how to solve them. Some have tried to fix these problems by giving nurses, doctors and teachers incentives to do better. Others hope to solve them by giving patients and parents the power to demand more.

Slow wins

An ingenious example of the first approach is provided by Seva Mandir, an old-established charity in Rajasthan, in India. It runs one-man schools in tribal villages, but discovered that teachers failed to show up one-third of the time. In response it did not withdraw funding, but instead gave teachers a

camera to photograph themselves and their pupils at the start and end of the school day. The pictures carried date and time stamps that could not be faked. The more such photographs teachers could produce each month, the more they were paid. Esther Duflo and Rema Hanna of MIT show that teacher absenteeism dropped to 18%, increasing the number of child-days of schooling by a third.

Monitoring, when not done by cameras, is a classic collective-action problem. Everyone benefits from a monitor's efforts, but only the busybody himself bears the cost. Overcoming this problem explains part of the success of Ceará, a state in Brazil's poor north-east, in cutting infant deaths. As Judith Tendler of MIT, tells it, the state government hired health field workers on merit and invited rejected candidates to monitor the new recruits, with a view to taking their place if they fell short of the high standards expected of them.

Could poor people themselves demand more of the institutions, schemes and campaigns cooked up to help them? In a few, blessed parts of the world, the poor already know their entitlements and how to press for them. In the Indian state of Kerala, where infant mortality is half that of countries nine times richer, doctors who neglect their duty reportedly risk a beating, and clinics left unmanned attract crowds of angry protesters.

Outsiders can help to strengthen the hand of the poor, at modest expense. The World Bank is particularly proud of its efforts to track spending on Ugandan primary schools. Between 1991 and 1995, it discovered, only 13% of funds allocated for schools ever reached them. “Ghost workers” gobbled up about a fifth of the money meant for teachers' salaries. These striking findings were widely published by schools and local newspapers: parents could find out how much money had been earmarked for a school, and how much had actually reached it. As a result, in 1999 and 2000, about 80-90% of funds reached the schools. The Bank's survey, which cost $60,000, helped plug a leak in school spending worth over $18m.

Tales of corruption, grand and petty, sap the will of donor governments and their taxpayers, who feel their generosity betrayed. But the poor, like everyone else, further their interests as best they can. They do not sit idly by, waiting for a big push. They struggle and cope; some hustle and scheme. It is often only such tenacity that gets them by.

The politicians who meet in Gleneagles on July 6th need not shrink from asking their taxpayers to be generous. But generosity is not the only virtue donors must show. They must also be free of illusion, lest they succumb too quickly to disillusion. The aid industry needs fewer manias and less depression.

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Identity cards

Magic plastic

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The British government's plans to introduce identity cards are ambitious and—probably—workable. But they could be costly

TO BOOSTERS, they promise to ease everything from race relations to opening a bank account. To critics, they are a costly affront to free-born Englishmen, a looming technological disaster and a political millstone—plastic equivalents of the poll tax, which tipped Margaret Thatcher out of power 15 years ago. This week's preliminary vote in the House of Commons on a bill to establish a national identity card means it is only a matter of time before Britons find out who is right.

If the government's plans stay on track, Britons will, within three years, begin to receive cards containing personal details, together with a digital photograph, fingerprints and an iris scan. A nation that has not possessed identity cards since 1952 will, in a step, acquire the world's most complex system.

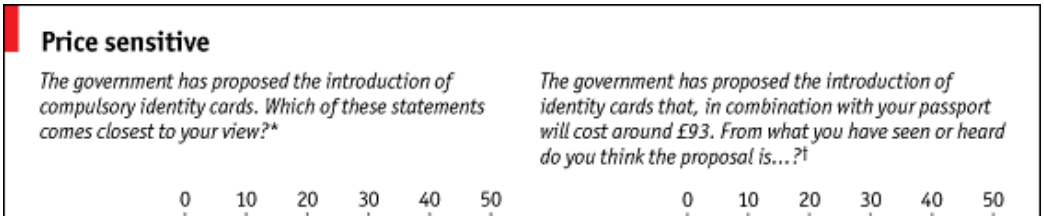
At the heart of the scheme is a national identity register, which will record basic personal details: name, sex, date and place of birth, address, nationality, immigration status and the numbers of documents such as driver's licences and passports. Those who fear the lengthening arm of the state should note that all of this information (and a good deal more) is already in government hands. Nor will the register be a patch on some commercial databases. Pieter Kasselman of Cybertrust, an information-security company, points out that consumer data and credit-reference companies already know much more about what people get up to.

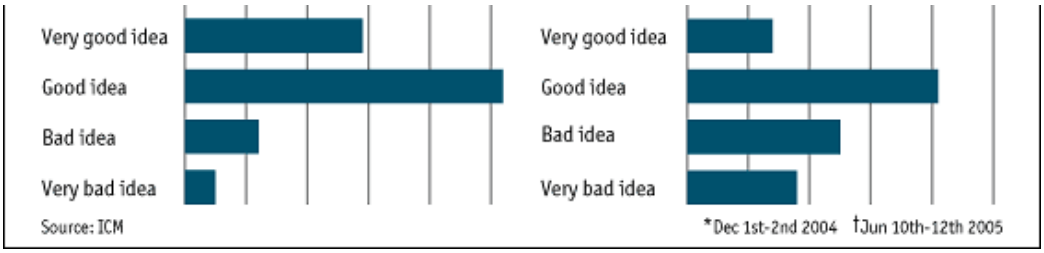
The beauty of the new database, from the government's point of view, is that the information it holds on a citizen will be dependable and reliably linked to that person. The errors and multiple entries that plague existing systems ought to be purged. As a result, and thanks to the introduction of a unique identifying number, government departments will be able to share information much more easily. At the moment, it is often difficult to know whether the John Bull known to one agency is the John Bull known to another.

Prophets of technological doom will probably be disappointed by a system that ought to suffer no more than the usual teething troubles. Although government IT projects have an unhappy record in Britain, serious trouble has usually come not from technology, but from extra burdens and bureaucratic reforms brought in at the same time. In 1999, for example, the Passport Agency tried to upgrade its computer system while changing the rules about who had to apply for a passport. Fifty-day delays and angry queues were the result.

Identity cards will be phased in gradually, as people renew their passports, and, because the database does not replace something that already exists, there will be no “big bang” when older systems are switched off. Catastrophic failure can therefore probably be avoided.

But the project may prove costly. That is a danger because public support for the cards, which appears immune to concerns about civil liberties or efficacy (a YouGov poll in 2003 found that 74% predicted “a lot of disruption and inconvenience”), depends on their price (see chart).


Price sensitive
The government has proposed the introduction of compulsory identity cards. Which of these statements comes closest to your view?*
The government has proposed the introduction of identity cards that, in combination with your passport will cost around £93. From what you have seen or heard do you think the proposal is...?†
0 10 20 30 40 50
0 10 20 30 40 50



The Home Office reckons that the cost of introducing biometric identity cards and passports over ten years will be around £5.8 billion ($10.5 billion), or £93 per person. But Kable, a consultancy that has advised the government on other IT projects, believes £162 per person is closer to the mark. A team of researchers at the London School of Economics (LSE) estimates a minimum cost of £170 per person and a maximum almost twice as large. As Mark Hudson, Kable's managing director, explains, it is unclear if everybody is counting the same costs, since the Home Office has not released detailed accounts.

Charles Clarke, the home secretary, dismissed the LSE's study as “technically incompetent” and partisan. He then tried to assuage fears by promising to cap the cost of an identity card. This is a meaningless gesture, since costs can easily be shunted to places where they will cause less offence. Much of the cost of collecting biometric and personal data has already been shifted to the passport service, on the grounds that passports must meet tougher international standards. New procedures (few of which are, in truth, required by other countries) mean the cost of a passport is predicted to reach £67.93 next year—almost twice as much as the figure for a passport last year. That allows politicians to claim identity cards are a fairly cheap add-on.

Worries over cost are nonetheless strong enough to have emboldened opponents of the scheme. Both the Liberal Democrats and the Conservatives voted against identity cards this week. So has the press. Of Britain's ten national daily newspapers, only two (the *Sun* and the *Times*) are cheerleaders for identity cards. Seven are opposed, some of them virulently, leaving only the tabloid *Daily Star* undecided. A steady drip of stories about glitches in the system may undermine public support.

For all that, identity cards are unlikely to turn into a repeat of the poll-tax fiasco. The cards will not be compulsory to begin with. By the time they are, problems ought to be ironed out and the cost of enforcement can be shifted onto general taxation, where it will drain money, but not votes.

At worst, identity cards will embarrass the government rather as did the Millennium Dome, an architectural folly in east London that suffered spiralling costs and media ridicule. Nevertheless, identity cards will probably eventually become part of the landscape. They will be accepted, though not loved—and certainly more useful to the government than the Dome has been.

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Gunboat diplomacy

Jun 30th 2005
From The Economist print edition

Getty Images

Warships from across the world gathered in the Solent on June 28th to celebrate the 200th anniversary of Vice-Admiral Lord Nelson's victory at the battle of Trafalgar. Yet the day's most skilful manoeuvres were diplomatic rather than nautical. A recreation of the famous battle took place, but for fear of offending its French and Spanish losers, the two fleets were described coyly as “Red” and “Blue”. The Americans had planned to send the *USS Carl Vinson*, one of their enormous aircraft carriers. In the event, the *USS Saipan*, an amphibious assault ship, replaced her. Officially, the Americans blamed "operational availability” for their carrier's absence. But some thought they detected a tactical retreat: the *Carl Vinson* dwarfs even the *Charles de Gaulle*, the pride of the French navy and the biggest ship present at the celebrations—while the *Saipan* is 38 feet shorter.

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Visas

Mobility business

Jun 30th 2005
From The Economist print edition

Bureaucrats are tightening rules on passports for the wealthy and talented

CLEVER, rich or both—almost every country in the world has some sort of programme to attract desirable migrants. The only exceptions are “weird places like Bhutan” says Christian Kalin of Henley & Partners, which specialises in fixing visas and passports for globe-trotters. Competition is fierce and, as with most things, that lowers the price and increases choice. Britain has two programmes, one for the rich—who have to invest £750,000 ($1.36m) in actively traded securities—and one, much larger, for talented foreigners.

Both have worked well. Unlike some other countries, Britain does not make applicants find a job first: with good qualifications, they can just turn up and look for work. That helps keep Britain's economy flexible and competitive. But now a bureaucratic snag is threatening the scheme.

The problem comes with anyone wanting to convert his visa into “indefinite leave to remain” (Britain's equivalent of America's Green Card). This normally requires four years' continuous residence in Britain. After a further year, it normally leads to British citizenship.

The law defines continuous residence sensibly. Business trips and holidays don't count, if the applicant's main home is in Britain. As a rule of thumb, an average of 90 days abroad was allowed each year. But unpublished guidelines seen by *The Economist* are tougher: they say that “none of the absences abroad should be of more than three months, and they must not amount to more than six months in all.” Over the four years needed to qualify, that averages only six weeks a year.

For many jet-setters, this restriction is a career-buster. Six weeks abroad barely covers holidays, let alone business travel. Alexei Sidnev, a Russian consultant, has to turn down important jobs because he cannot afford any more days abroad. If applicants they travel “too much”, their children risk losing the right to remain in Britain.

Roger Gherson, who runs a specialist immigration law firm, reckons that, including such dependents, the new rule could affect 750,000 people. “Panic will reign in Canary Wharf [in London's financial district] when they start implementing this,” he says. Next week his firm is going to court to try to have the guidelines ruled illegal. They came to light in a case involving a wealthy foreigner who runs an international property business. His application for permanent residency was rejected in April, though in the previous four years he had been abroad for only 351 days, and never for more than 90 days at a stretch.

The Home Office insists that the rules have not changed since 2001. That would confirm Mr Gherson's suspicion that the new policy has come in by accident, probably as a result of zeal or carelessness by mid-ranking officials. Their attitude is at odds with the stance of the government, which has been trying for years to make the system more user-friendly for the world's elite. It even moved processing of business residency cases from a huge office in Croydon, notorious for its slowness and hostility to would-be immigrants, to a new outfit in Sheffield.

But lawyers such as Mr Kalin are in no doubt of the risk Britain is running. America, he says, is already losing out in the global talent market because of its “painful and humiliating” immigration procedures. If Britain's rules stay tight, he says, foreigners will go elsewhere. Likely beneficiaries are Ireland and Austria, European Union countries whose residency visas and passports confer the same convenience as British ones, with less hassle.

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Zimbabwean refugees

Bob stories

Jun 30th 2005
From The Economist print edition

Britain's favourite asylum-seekers

ASYLUM-SEEKERS are not popular in Britain. Opinion polls before the general election put asylum and immigration near the top of voters' concerns, setting off a competition between Labour and the Conservatives to sound tough on the issue. Five years ago, a Eurobarometer survey of the European Union suggested only Greece and Belgium were less tolerant of refugees.

Which makes it odd that this week saw an outcry in favour of a group of failed asylum-seekers—who are more usually dismissed as scroungers. The pleas for them to stay in Britain came from some strange quarters: joining the most senior Anglican and Catholic churchmen were the Conservative Party and the *Daily Mail*, which normally dismisses asylum-seekers as economic migrants in disguise. Beset from all sides, there will be no immediate deportations, though the government insists its policy has not changed. So what has?

First, the scroungers in question come from Zimbabwe, which was once part of the British empire, and is the one African country written about frequently in the British press. Britons know that Robert Mugabe is a brutal tyrant who steals property from white farmers, as well as starving and beating up political opponents. They also note with a twinge of pride that Mr Mugabe has squandered a beneficent colonial economic legacy. None of this makes Zimbabwe worse than a handful of other benighted countries. But it gives Zimbabweans a competitive advantage over asylum-seekers from such places as Somalia and Congo.

Second, the government has steadily adapted policy to popular pressure to turn away asylum-seekers. Last autumn, when Labour was nervous about the Conservatives gaining electoral advantage on the asylum issue, Tony Blair announced that he wanted more failed asylum-seekers to be deported each month than there were new applicants whose cases were rejected. A moratorium on sending people back to Zimbabwe was lifted, and in April new rules made it harder for failed applicants to appeal against their decisions.

Unsurprisingly, the Immigration and Nationality Directorate has become rather good at carrying out its masters' wishes. In about nine out of ten cases, staff there decide (after 11 days of training and a further 11 days of “mentoring”) that applicants are in no real danger. How irritating then, for a system designed to appease popular sentiment, to find that public opinion is so fickle.

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Communist spies

Dead ideology

Jun 30th 2005
From The Economist print edition

Melita Norwood, the KGB's top female agent in Britain, has died

PA

Moscow, do you read me?

HER counterparts—Soviet citizens who spied for the western democracies—were jailed, tortured and executed. But when Melita Norwood, who was one of the Soviet Union's top spies in Britain from 1937 to 1972, was unmasked by a defector at the age of 87, the British authorities decided to do nothing. They did not want to be seen as unkind to old ladies.

Mrs Norwood was the proud holder of the Order of the Red Banner, and even received a KGB pension, of £20 a month. But unlike many other spies, her motivation was not money. She died, aged 93, as she had lived: an enthusiastic Communist, with only the mildest reservations about the Soviet Union's blood-drenched history. She “loved Lenin” but conceded that Stalin—“old Joe”—was “not 100%”. Given the chance, she said, she would have done it all again. To her dying day she subscribed to the *Morning Star*, Britain's Communist daily. From a modern viewpoint, it seems odd that such a nice and intelligent woman should be so firmly attached to such an unpleasant cause.

She worked as a secretary at the British Non-Ferrous Metals Research Association, an innocuous-sounding outfit, but one closely involved in Britain's atomic-weapons research. Her efforts helped ensure that most of Britain's nuclear secrets went straight to Moscow, enabling the Soviet Union to build its atomic bomb earlier, perhaps by two years, than it would have otherwise managed. Her controllers saw her as very important: at one point they had too few intelligence officers in Britain to handle all their spies, so they dumped Kim Philby and kept contact with her.

Mrs Norwood's life raises two intriguing questions. One is about security at the time. She was vetted only in 1945, and even then hardly anyone worried that a paid-up Communist, married to another paid-up Communist, had access to Britain's most sensitive secrets. It wasn't only Mrs Norwood who was complacent about the Soviet Union.

The other is about historical double standards. British officialdom is still trying to hunt down surviving Nazi war criminals: last month the Home Office passed to the police details of 200 suspects, mostly from the Galician Waffen-SS division, whose Ukrainian soldiers were allowed to come to Britain after the war. Another new list of suspects is of 75 guards, from the Auschwitz death camp in Nazi-occupied Poland, who may still be alive in Britain.

Few would argue with that: collaborators with Nazi genocide should not sleep easily at night. But it does

seem odd that even the most enthusiastic accomplices of Europe's other totalitarian empire should face not the slightest official displeasure. “I thought I'd got away with it,” said Mrs Norwood, when reporters first came to her door. She had.

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Railways

The price of success

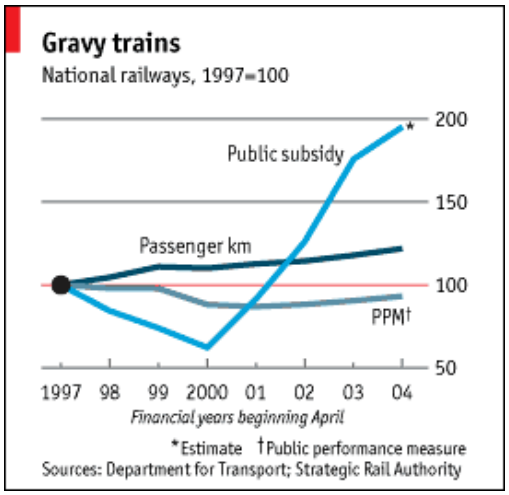
Jun 30th 2005
From The Economist print edition

Rail is in good shape. But that doesn't mean it offers value for money

Get article background

COMPARISONS to fascist Italy are rarely flattering, but Britain under Labour seems to be making the trains run on time. In May bosses at Network Rail, the state-backed outfit that owns and maintains the rail infrastructure, won big bonuses for meeting their performance targets. Later that month Network Rail announced an operating profit of £460m. For many of the firms that run the trains, life is improving, too: on the highly popular London to Edinburgh route, for example, passenger numbers rose by a further 10% last year.

The perception that Britain's railways are hopelessly run-down is enduring, but outdated. Although they retain an inexhaustible appetite for public money, the railways' performance is now improving over the entire passenger network. This is from a low base, of course, following decades of penny-pinching under government ownership, a botched privatisation in 1996 that created perverse incentives and huge scope for waste, and a recent bout of wrong-headed ministerial interference following some headline-grabbing rail crashes (see article).



The clearest evidence of progress is in the trains themselves. In 2000 passenger rolling stock was, on average, 21 years old. A splurge in investment by the train-operating companies has pushed that down to 15. On the long-distance routes the improvement is even bigger, with the average age falling from 26 years to 17.

The trains are not just newer; they work better, too. The Public Performance Measure, which follows punctuality and reliability, has been rising every year since 2001. Last year, 83.6% of trains ran on time, which bears comparison to much-praised continental railways in Germany and Switzerland. Network Rail reckons that, by next year, performance will be as good as it was before the Hatfield rail crash in 2000 (see chart), which prompted a huge, costly and disruptive programme of track repairs and speed restrictions that satisfied politicians' need to be seen to be doing something, but produced little overall gain in safety.

Even the long-suffering passengers are beginning to notice. Line closures and service cuts have left a smaller network than the one the government took over in 1947, but the track is more efficiently used.

The total distance travelled on the railways has risen sharply over the past decade, to 42.3 billion passenger kilometres in 2005, the highest since nationalisation. Passengers are happier with every aspect of their journeys—except the cost, where approval ratings remain obstinately unchanged.

That is unsurprising, since the travelling public has had to fork out twice for the better service, through a combination of higher fares and rocketing government handouts (see chart). Subsidies have risen from £1.4 billion a year in 1999-2000 (before the Hatfield crash) to an estimated £4.6 billion now. Fares are up 6.3% in real terms over the past ten years, although that average masks big variations: pre-booked ticket prices have risen by 10.9% for standard seats, whilst commuter fares, approved by the government, have fallen by 4.2%. First-class fares are up 32.5%. Even the commuter routes might not be spared rises in future, if the train operators are allowed to levy some sort of congestion surcharge on busy lines at rush-hour. All this is necessary, say rail bosses, to manage demand and to make up for decades of under-investment.

The big question is what will happen after 2009, when the government's plans for rail spending come to an end. Many commentators think that the scale of the improvements so far is paltry, given the huge amount of extra cash that has been spent. “There's a terrible mismatch between the money going into the railway and the results coming out of it,” says Roger Ford, of Rail Business Intelligence, a consultancy. Much of Network Rail's money comes from borrowed cash; its debt pile has now reached £15.7 billion. Borrowing will fall sharply from next year—but most of the gap will be plugged with £1 billion in direct public subsidy, and a further £1 billion price hike in the access fees charged to the train companies. That will mean even higher fares, and sharper questions, which the government has so far side-stepped, about the railways' size and costs.

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Railtrack

Railroaded?

Jun 30th 2005
From The Economist print edition

Investors have charged the government with bilking them out of millions

Get article background

FEW would now argue with the idea that the privatisation of Britain's railways was badly mishandled. So too, nearly 49,000 investors claimed this week, was its partial renationalisation. The investors, shareholders in Railtrack, the defunct company set up in 1994 to run the infrastructure and later replaced by Network Rail, made the accusation in a suit calling for a possible £157m in compensation at the High Court.

The shareholders allege that the government committed "misfeasance in public office"—that is, it acted legally, but in bad faith—and that it violated their human rights when, late on a Friday in October 2001, it told Railtrack of its intention to put the firm into administration. They claim that Stephen Byers, then the transport minister, had been planning to force the firm into bankruptcy for months, as an alternative to an expensive public-sector buyout.

That the company was in trouble is not in doubt. Maintenance costs were spiralling out of control, and a series of fatal accidents had led to accusations that it was running an unsafe railway. These two problems came to a head in 2000, when a derailment at Hatfield in Hertfordshire killed four people and injured 35. Investigators blamed a broken rail, sparking off a huge programme of repairs and replacements that wrecked timetables and led to long delays across the entire network. Railtrack, prodded by withering attacks from the government, was forced to spend vast sums, both on replacing track and on compensating the train operators for the resulting delays to their services. That turned a £360m profit into a £534m loss in a single year. Worse, partly as a result of Hatfield, Railtrack predicted a funding gap of almost £5 billion in the period to 2006.

The government denies any wrongdoing, saying the decision to seek administration was taken at the last minute and that throwing even more public money at a loss-making enterprise (it had already brought forward £2 billion in grants) would not have been in the public interest. It points out it was the courts, not transport officials, that declared the company bankrupt and rubbishes the idea of a plot to destroy it.

The case is expected to last for three or four weeks, but whatever the outcome, it has already dented the government's image. Several memos between civil servants and ministerial advisers have been made public, referring dismissively to Railtrack's shareholders as "grannies" who would "lose their blouses" (see article), although the government seemed more keen to placate big American investors. There were suggestions that Tom Winsor, the Rail Regulator at the time, could be "silenced" through legislation.

Railtrack's managers seemed powerless in the face of annihilation. Mr Byers, it was revealed, was willing to pay £1 billion to the firm's shareholders "to go quietly"—but, as it happened, the board's acquiescence made that unnecessary.

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Politics and television

Reality check

Jun 30th 2005
From The Economist print edition

Labour has stumbled on a new inspiration for policy

IT'S HARD to keep up the impression of fervent, focused government, especially when you've been in power for eight years and your third term stretches before you like a long, lonely Saturday evening without anything on the telly. Hence, perhaps, the reason why Tony Blair's government, desperate as ever for “initiatives” to show voters that Labour still has fire in its belly, has hit upon a new inspiration for policy—reality TV.

Chavette transformed

It started innocently enough. The Department for Education and Skills was shamed into spending millions of pounds more on school food, after Jamie Oliver, a television chef, showed that a meagre budget of 37p ($0.67) a serving provided schoolchildren with a greasy, attention-sapping diet of “Turkey Twizzlers” and pizza. Now Gordon Brown, the chancellor, has jumped on the bandwagon set rolling by “The Apprentice”, a British version of a successful American reality show. It features Sir Alan Sugar, an electronics tycoon, sacking 13 out of 14 aspiring managers to identify the one worthy of a job in his company. Mr Brown, impressed by Sir Alan's work in schools, wants to launch two-week summer courses on entrepreneurship for 12- to 18-year-olds.

But why stop there? For a government preoccupied by its image with the voters, reality television is the ultimate focus group. The medium that created “Neighbours from Hell” must surely have more to offer the rivals occupying Numbers 10 and 11 Downing Street. The finishing school featured in “Ladettes to Ladies”, which instructs ten belching young women how to sign a cheque and cook a soufflé, might be a way of civilising Britain's disrespectful, behooded youth. If the distinctive chrome and go-faster stripes that transform the jalopies in MTV's new hit “Pimp My Ride” were more widely used, speed cameras would no longer be baffled by muddy number plates.

A dose of this sort of reality could also help the Conservatives, who are all too aware that their search for a new leader is failing to catch voters' attention. Instead of keynote speeches and in-depth newspaper interviews, they could turn to trial by leech and snake in some sub-tropical jungle—ideal preparation for life at Westminster.

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Nurseries

Toddlers and taboos

Jun 30th 2005
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What counts as heresy in schools is normal in nurseries

FEW things infuriate the educational establishment more than vouchers, and the linked idea that private providers might run schools better than the state. Yet until British children reach the age of five, that is exactly what is on offer. In England and Scotland the government provides 12.5 hours a week of free childcare, available at the nursery of the parents' choice—typically a privately run one. This has led to a lot of private provision, with parents free to top up the state subsidy as much, or as little, as they wish.

The government insists this is quite different from the previous Conservative government's voucher scheme, which was abolished in 1997. In this set-up, the money (around £1,000 a year, varying by region) goes to the local authority, and thence to the nursery. But the effect is the same: money follows the child; the parent chooses, the state pays. The result is that around half the under-fives go to places in private providers and 38% go to state-run nurseries (the rest are mostly at home).

The scheme is cheap to administer, popular and allows parents to decide how they want to balance their time and money. Contrast that with the school system, where 7% of children go to fully private schools, for which their parents pay an average of £7,000 a year, or take their chance in the state schools. These do try to raise money from parents, but it is strictly voluntary and the results are patchy.

It is tempting to imagine the nursery scheme in schools, too. Private nursery providers claim many of the benefits that reformers would like in the classroom: lower costs, greater efficiencies and less bureaucracy. Reform, a think-tank, notes that if broadly replicated, it would mean the independent sector, now a mere £1.5 billion in size, would grow by £11 billion.

More likely is the reverse. Private nursery providers fear a big planned expansion of state nursery provision will squeeze them out. The National Day Nurseries Association, which mainly represents private and voluntary providers, says extra state-sector places have already put some private nurseries out of business. State nurseries tend to have newer facilities, and may have lower overheads if they share premises with state schools. The threat will increase, they argue, as the government expands its Sure Start programme, aimed at the country's poorest families. By 2010 there will be 3,500 new children's centres, including health clinics, social services and nurseries.

It would be cheaper and better, says the NDNA, to get most of the extra capacity from the private sector—possibly at reduced prices for bulk buying—than build it from scratch. Privately run nurseries will have a better social mix than those aimed solely at the poor, they note. The government says it wants “diversity of provision”, but is still talking to local authorities about the details. The outcome will be an interesting pointer about the future of education—and not just for toddlers.

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Bagehot

Mr Brown and the sound of flapping wings

Jun 30th 2005
From The Economist print edition

Quite by coincidence, as Tony Blair's fortunes have risen, Gordon Brown's have fallen

THIS Saturday evening in Edinburgh, Gordon Brown will add his voice to those of the Make Poverty History marchers who are descending on the city. The chancellor is sure to turn in a vintage performance, full of jaw-jutting evangelical fervour on behalf of the poor of Africa. It will be a welcome escape from troubles that are beginning to pile up closer to home.

These have nothing to do with the remarkable recovery in Tony Blair's political fortunes. It is true that a referendum in Britain next year on the European constitution would have virtually ensured Mr Brown's succession either before or just after it. And it is also true that he will now almost certainly have to wait at least two and perhaps as long as three years before he gets the keys to the house next door. But this is not necessarily bad news for Mr Brown. There is something to be said for becoming prime minister later in the parliament—Mr Brown will want to capitalise electorally on a honeymoon period that may well be brief.

The problems closing in on Mr Brown are nothing to do with Mr Blair. What has happened is simply that the chancellor's long lucky streak has finally run out. Partly, it is the weakening of the economy. A flat housing market and debt-ridden consumers deserting the high street will make it hard, if not impossible, for the chancellor to meet his growth forecasts and the fiscal projections that depend on them. Mr Brown has frequently used his autumn pre-Budget report to confound his critics, but the chances of his doing so this November are getting slimmer by the day.

That will embarrass Mr Brown, but nothing like as much as some other things should. Last week, he sat glowering in the House of Commons while Dawn Primarolo, a junior treasury minister of limited ability, tried to explain why one of Mr Brown's flagship policies, laudably designed to help the working poor, had instead driven large numbers of them into distress and penury. Nobody disputes the worthiness of the intention behind Mr Brown's tax credits, but plenty of people did express concerns that the scheme was too complicated either for the Inland Revenue to administer or for claimants to understand.

So it proved. Having overpaid 1.9m recipients in one year, the Inland Revenue then attempted to claw the money back the following year. Most of them, being poor, had spent the money. To meet the revenue's demands, many have been forced into crippling debt or bankruptcy.

These problems had been known about for some time, but two devastating reports, one from the Parliamentary Ombudsman, the other from the Citizens' Advice Bureau, forced the government to acknowledge that all was not well. Unfortunately, Ms Primarolo communicated complacency rather than regret. The Treasury is not only reluctant to make amends; it also seems to think that everything will eventually sort itself out with a little tweaking. None of this reflects well on Mr Brown.

Nor does the evidence that the Railtrack shareholders have gathered in their legal battle for compensation that began this week. Although Stephen Byers, the former transport minister, is more obviously in the shareholders' sights, e-mail exchanges within government show that the Treasury, represented by one of Mr Brown's closest advisers, Shriti Vadera, was in the driving seat. Ms Vadera's e-mails reveal that the Treasury had become set on gaining control of the company's operations without paying anything to the small shareholders who had been encouraged to invest by the previous government.

If “the grannies lose their blouses”, Ms Vadera cynically observed, it wouldn't matter: they were only “shareholders who had added no value to the company”. On the other hand, it was a priority to treat carefully the big City banks and the American institutional shareholders who were needed to sustain Mr Brown's pet private finance (PFI) deals—his main vehicle for public-sector capital investment. Whether

or not Railtrack was worth saving, there's little question that the Treasury, with Mr Brown's blessing, plotted to manoeuvre it into bankruptcy.

Down in the detail

PFI is itself beginning to look nearly as sick as Railtrack. *The Economist* has always had reservations about the off-balance sheet liabilities PFI schemes were building up. But the past few weeks have added to the doubts. The June 9th issue of the *Health Service Journal* carried a remarkable attack by a senior health department official, Bob Ricketts, on “some awfully grand PFI schemes that are starting to give us a real problem in our capacity mapping”.

A day later the National Audit Office published a report on the refinancing of Norwich and Norfolk University Hospital by Octagon. Nothing the contractor did, according to the NAO, was outside Treasury guidelines. But by the simple expedient of making a turn on the difference between the risk the government thought Octagon was taking on at the beginning of the contract and the reduced risk six years into its life, Octagon was able to make more than £73m ($130m). And last week, an ambitious PFI-based plan to combine two hospitals in west London was abandoned (after eight years and the expenditure of £14m) because projected costs had spiralled from £360m to £1.1 billion.

Mr Brown should brace himself for further discomfort in November at the hands of Adair Turner's Pensions Commission. Its final report will criticise pension credits, yet another policy he has championed. As with tax credits and PFI, the culprits are again excessive complexity and unintended effects—in this instance, disincentives for people to save for their retirement.

Mr Brown will argue that nobody has come up with a better way of redistributing money to poor working families and pensioners or rapidly renovating Britain's neglected public-sector infrastructure. But that does not alter the fact that the chancellor's stock is down and may have further still to fall.

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Correction: Premium Bonds

Jun 30th 2005
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Last week, we gave Harold Wilson the credit for launching Premium Bonds. Of course, Mr Wilson—who was shadow chancellor at the time—was in no position to do any such thing. The bonds were in fact launched in 1956 by Harold Macmillan, his opposite number on the government benches. Sorry. This error has been corrected online.

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The Russian army

How are the mighty fallen

Jun 30th 2005 | BALTISK AND MOSCOW
From The Economist print edition

Eyevine

Russian conscription is one of Europe's worst human-rights scandals. But the system is too lucrative for the top brass to scrap it

AFTER he was conscripted last autumn, says Peter, an 18-year-old from Korolyov, he was frequently forced by his older comrades to climb through a hole in the fence at his base and beg for cash in a local town. There were beatings with stools and belt buckles, burnings with a cigarette lighter, and he was forced to give blood every two weeks to bring in a few more roubles. In the end, he ran away.

“You know what graffiti I wrote on the fence the other day?” Dmitri Oparin, a conscript from Chelyabinsk, wrote to his family during his service in the Moscow region. “Let me out of here.” With his twin brother Alexander, Dmitri was drafted in June 2003. After an especially brutal beating by a sergeant, the brothers deserted last November. They killed two policemen and Alexander died during a siege. Dmitri has been diagnosed with schizophrenia.

“Conscription,” Tolstoy wrote of the mid-19th century Russian army, “was like death.” Things may have improved a bit for the 350,000-odd young Russians now drafted in two batches each year. But scarcely a week passes without a case of conscripts being murdered, killing themselves, freezing to death, or deserting and sometimes going on violent rampages. According to official figures, the armed forces suffer roughly 1,000 non-combat deaths every year. Military prosecutors uncovered 46 in just one week in June.

This being Russia, that revelation, like prosecutors' other remarks about theft and embezzlement among officers, was seen as a bid to undermine Sergei Ivanov, the defence minister, who is tipped as a possible successor to President Vladimir Putin. Mr Ivanov has promised more transparency over military deaths—a departure from his usual line, which is to insist that military depravity is declining. The normal justifications are that crime and suicide are national problems (“the army is a copy of society and suffers from all its diseases,” wrote Trotsky, “usually at a higher temperature”); and that other countries' armed forces suffer from them too.

Or that the problems do not exist at all. Vladimir Valuyev, admiral of Russia's Baltic Fleet, based at Baltisk in the Kaliningrad region, says that 12 sailors who deserted in April after alleged abuse simply

did not want to go to sea. “We turn out real men,” says the admiral angrily. On board his ageing flagship, which has shapes of NATO planes stencilled on its deck, many conscripts say—at least when their officers are listening—that they plan to stay on after their mandatory terms.

However much it is still cited by runaway draftees, *dedovshchina* (rule of the grandfathers) is said by the defence ministry to be waning. Dividing conscripts into categories according to their length of service, this system of persecution evolved in Soviet times but has become more brutal over the past two decades. Younger conscripts who refuse its serf-like obligations, including begging and stealing, risk horrific, occasionally lethal punishment, which absent, callous or corrupt officers fail to prevent.

Dropping conscription altogether is still not in prospect

Russia's top brass has long talked of shifting the balance between conscripts and contract troops in the 1.2m-strong armed forces. In 2008 the conscription term is due to be cut from two years to one; by the end of 2008, 70% of all troops are meant to be volunteers. A planned professional corps of non-commissioned officers might even tackle *dedovshchina*. At the barracks of the Tamansk division outside Moscow, which is evolving into an all-volunteer unit, privates say that conditions are much better than elsewhere: they sleep ten to a room, rather than 100. Officers say that contract soldiers are more interested in their pay than in bullying.

But dropping conscription altogether is still not in prospect. Colonel-General Anatoly Mazurkevich argues that if Russia's armed forces—now less than half their size at the collapse of the Soviet Union—shrink any more, they will be unable to defend the country's territory. A counter-argument is that these unreformed armed forces could never repel a serious invasion anyway. “If you've got 1.2m men who've got the wrong kit and can't be deployed,” says one western liaison officer, “the situation is not much better than when the Germans came.” Russia's nuclear weapons are its only real defence against strategic threats. It would be better to make the army lean and nimble enough to tackle local insurgencies and terrorism.

The other rationale is that conscripts, at a few dollars a month, are so cheap. (A smaller army would also, of course, need fewer senior officers). But another powerful reason is that the system is highly lucrative for some. Young men unfortunate enough to be drafted provide illicit forced labour; those canny or rich enough to escape the draft can be more profitable still. Only a small minority of 18-27-year-olds (9%, says the defence ministry, though this is disputed) actually serve their two years. The rest are exempted on medical grounds, or receive educational deferments which bring huge bribes for doctors and universities. Ilya, from Moscow, paid $2,000 for an exemption to a recruiter, who never gave him the certificate. Ilya's conclusion? Better to have paid $400 to a doctor. “This is life,” comments General Mazurkevich.

This shameless travesty has huge costs. Conscripts are generally poor, ill-educated, and sometimes already alcoholic and malnourished. Valentina Melnikova, of the Committee of Soldiers' Mothers, which wants conscription scrapped, says that it takes 18 months to recover from military service, even without being sent to Chechnya. (Officially, the army no longer uses conscripts in Chechnya, but some claim to have been sent there anyway. “Young boys are just dying for assholes that make money on it,” says one.) Then there are the costs to the country: a warped education system and disrupted labour market, among others. There may yet be political costs for Mr Putin too.

Russian generals have always relied on two strategic superfluities: lots of land and enough people to compensate for the poverty of their equipment, training and feeding. But Russia's rapidly shrinking population, combined with draft-dodging, is threatening the old calculus. Government talk of abolishing student deferments to bring in more and better-quality conscripts subsided after big protests over social reforms in January. Another idea being mooted to achieve the same goal is to cut the number of universities that offer military training alongside their normal academic courses. But if anything could alienate ordinary Russians from Mr Putin's still popular regime, the prospect of tens of thousands of their sons being called up just might be it.

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Moldova and Transdniestria

Gangsters cornered

Jun 30th 2005
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Ukraine tries to broker peace in Moldova

AT SOME point in the past few years, 70 portable surface-to-air Igla missiles disappeared from an ex-Soviet military stockpile in Transdniestria, a breakaway region of Moldova. Western governments doubt the authorities' undocumented explanation that the missiles were destroyed after water leaked on them. “We don't know where they are or who's got them,” says a senior western security source.

This tale exemplifies western headaches over Transdniestria, a rogue statelet that won quasi-independence after a brief war in 1992, and has survived ever since on Russian military support, money and cheap gas, plus a thriving arms business and other smuggling activities. Not that the locals gain much. Transdniestria is a police state; its existence helps keep Moldova one of the poorest countries in Europe. But it benefits people at the top. Corrupt politicians and officials in neighbouring countries enjoy the perks of illicit trade through Transdniestria. Russia sees the region—which has a largely Russian-speaking population—as a surviving bastion of its former empire. Fitful western involvement through such outfits as the Organisation for Security and Co-operation in Europe has had little effect.

Now change is on the way. Ukraine, previously an accomplice in Transdniestria's smuggling business, has launched a peace plan, broadly backed by the European Union. It features free elections in Transdniestria and a negotiated settlement with Moldova under international supervision. Reaction has been mixed, but so far nobody has rejected it outright.

Ukraine is also exerting practical pressure: next week, it will open five new customs posts on the border, jointly staffed with Moldovan officials. Previously, Ukraine had insisted that its constitution forbade foreign customs officers from operating on its territory. That was a convenient fiction which allowed smuggling to thrive. The most lucrative illegal business may find a way round. But the new moves are still ominous for Transdniestria, especially if they presage international supervision of the border, which an EU mission is considering.

Genuinely free elections in Transdniestria would be hard to organise, given the lack of independent political parties or media and the omnipresent secret police. And what will happen to Russia's armed forces, called “peacekeepers” by the Kremlin, but unwelcome overstayers by Moldovans? “It would be desirable if western leaders would raise this with President Putin,” comments Adriaan Jakobovits de Szeged, the EU's envoy to the region, drily.

Others are gloomier. Vladimir Socor, a hawkish pro-Moldovan based in Germany, says some Ukrainians' motives are still dodgy: “Russia has realised that it is too weak to hold on to Transdniestria, while these Ukrainians are not strong enough to grab it. So they need each other to ensure a condominium.”

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Bulgaria's election

Can Simeon depart in peace?

Jun 30th 2005 | SOFIA
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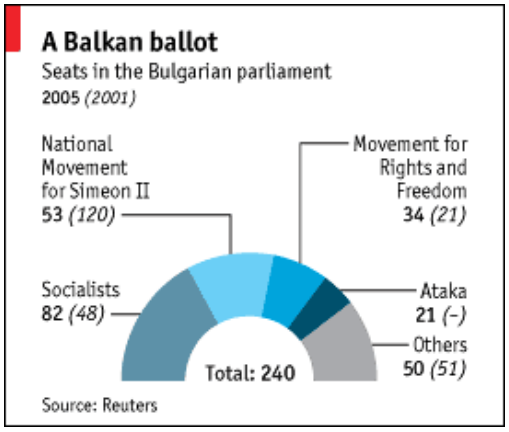
The search is on for a plausible coalition government to tackle judicial reform



THE voters of Bulgaria have formed the habit of throwing out governments but not giving the opposition a clear majority. That is one conclusion from the general election on June 25th, when the (ex-Communist) Bulgarian Socialist Party took 31% of the vote, less than the 40% it had hoped for. The ruling centre-right National Movement for Simeon II, led by Bulgaria's ex-king and prime minister since 2001, Simeon Saxe-Coburg, won 20%. The Movement for Rights and Freedoms, a party for ethnic Turks, came third, with 13%; worryingly, a brand new nationalist party, Ataka (Attack), which stood on a racist platform aimed at the Roma minority, took 8%.

The Socialists will have just 82 seats in the 240-member parliament. The question now is: can Sergei Stanishev, the 39-year-old Socialist leader, cut a swift deal with Mr Saxe-Coburg and Ahmed Dogan, the Turkish party leader and veteran of previous coalition governments? Bulgaria cannot afford prolonged wrangling. It hopes to join the European Union, with Romania, on January 1st 2007. The accession treaties have been signed. But deadlines for judicial reform are fast approaching. Monitors from Brussels are due in Sofia at the end of August to assess progress. Although EU membership may not be in question, the monitors may conclude that it should be postponed for a year, to 2008. A delay would be costly: farmers would risk losing €500m ($610m) in subsidies, and foreign investors could go elsewhere.

A two-thirds majority in parliament is needed to approve constitutional reforms to make Bulgaria's prosecutors more effective and its judges more accountable. The rest of Europe is worried. Bulgaria's organised-crime groups specialise in cybercrime and trafficking in drugs, people and weapons. Local gangsters are reckoned to have carried out more than 50 murders in the past year, some of them in daylight in Sofia's streets. None of these crimes has been solved. Corruption among prosecutors and the judiciary makes it hard to obtain convictions even after the police arrest suspects and collect evidence, complains Boiko Borisov, who resigned as Bulgaria's chief policeman to win a parliamentary seat for Mr Saxe-Coburg's party.

The urgent need for judicial reform aside, Mr Saxe-Coburg did well as prime minister. He steered Bulgaria into NATO and towards the EU. And he turned the economy around. Foreign investment last year reached a record €2 billion, and unemployment fell from 18% to 11%. So why did the voters punish his government? One answer is that the elderly, a big part of the electorate, blamed it for a crumbling health-care system, low pensions and rural stagnation. Although less corrupt than its predecessors, the government failed to live up to its “clean-hands” promise. Transparency International,

a watchdog, criticised a €700m contract for a toll road—the biggest infrastructure project in the Balkans—that went to a consortium of Portuguese and Bulgarian firms with no tender.

A grand coalition of the three big parties may be the best way of pushing through the necessary reforms ahead of the EU deadline. But finesse will be required to put it together. Mr Stanishev finds it hard to keep his party's communist-era barons under control. Mr Saxe-Coburg may insist on staying as prime minister in return for backing a Socialist-led government. The president, Georgi Purvanov, himself a former Socialist leader, may have to act as deal-maker. With luck, he may persuade Mr Stanishev to be patient and let Mr Saxe-Coburg remain long enough to see Bulgaria into the EU.

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Globalisation and French discontents

Demon monde

Jun 30th 2005 | PARIS
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The French denounce globalisation, but their companies embrace it

A SOUR mood of protectionism has taken hold since French voters said no to the European Union constitution on May 29th. Politicians of all stripes, including Dominique de Villepin, the new prime minister, have been eagerly denouncing globalisation (see article). Yet even as the political class turns introspective, the French economy becomes ever more open and globalised.

France is both the world's fifth-biggest economy and its fifth-biggest exporter, shipping out €450 billion-worth ($560 billion) of merchandise in 2004. Its private sector boasts world-class producers of cars (Renault, PSA Peugeot Citroën), cosmetics (L'Oréal), insurance (AXA) and oil (Total). Renault reported a 43% rise in net profits for 2004, to €3.5 billion. In the first quarter of 2005, Total's net profits soared by 50%, to €2.9 billion.

Its politicians may profess a fear of global capitalism, but France's businessmen are happy to exploit it. A French company (Sodexho) feeds the American army; another (Accor) runs leading chains of American motels; a third (Hachette Filipacchi) is the world's biggest magazine publisher. A Frenchman (Denis Hennequin) has been made head of McDonald's Europe; another (Jean-Philippe Courtois) runs Microsoft International.

This might just be an escape from domestic constraints were it not matched by an openness to foreign investors. The OECD recently reported a sharp downturn in foreign direct investment in France in 2004, from $43 billion to $24 billion, but its figures tend to be distorted by a few big deals, and by the location (often Luxembourg) of holding companies. The French Agency for International Investment, which measures only direct productive investment in industry and services, says that the number of foreign projects in France grew by 7% in 2004. Clara Gaymard, the agency's head, claims that these were worth $5.8 billion, up from $4.6 billion in 2003.

France is making a big effort to market itself abroad. Mrs Gaymard advertises “the new France”, reminding investors of its first-rate infrastructure, health care and educated workforce. Bosses who gathered this week for an annual investment conference in La Baule discussed ways to improve competitiveness; a group has formed an “attractiveness” council to advise the government. Some testimony to France's appeal as a location came when Cadarache, in Provence, was picked this week for the international €10 billion nuclear-fusion reactor. Christine Lagarde, the new trade minister and a former global head of Baker & McKenzie, an American law firm, is keenly promoting French exports. Big firms may sell lots abroad, but she notes that only 5% of all French companies export anything at all.

If France profits so much from globalisation, why is the concept so unloved? The short answer is unemployment. Companies invest in France despite, not because of, its labour laws. GDP per hour worked is higher in France than in America. The trouble is that, thanks to high unemployment (now 10.2%) and a short working-week, the French work fewer hours per head than any other OECD country. A high minimum wage and lengthy redundancy procedures deter job creation. Firms keep payrolls short and invest in mechanisation instead. Foreign investors often create few jobs. Labour-intensive activities are especially vulnerable to competition from lower-cost central Europe or Asia.

The message is getting through. Mr de Villepin is concentrating almost exclusively on jobs. This week, to the indignation of the opposition, he pushed through a law letting him introduce new measures by decree. His main idea is a new two-year employment contract for small firms, giving employers more flexibility. By itself, it will not dent unemployment: in the short run, subsidised work schemes will do more. But the thinking is edging the right way. Unless France can remove obstacles to hiring, and boost job creation at home, globalisation will continue to be seen as more of a threat than an opportunity.

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German fiscal politics

Tax and spend

Jun 30th 2005 | BERLIN
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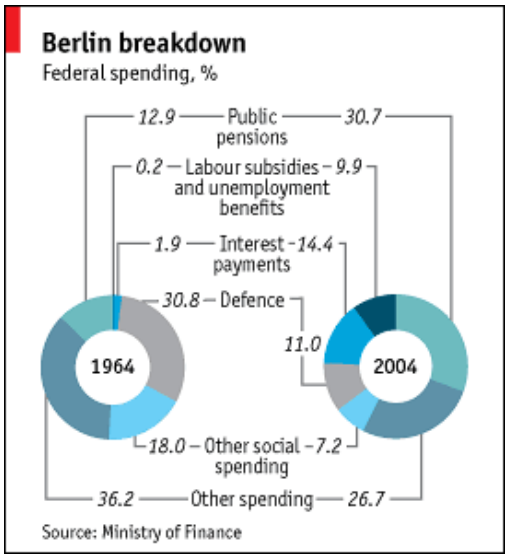
Whoever wins the election in September faces a fiscal quagmire

AS BENJAMIN FRANKLIN might have put it, nothing in Germany is certain except death and taxes. On July 1st Chancellor Gerhard Schröder will engineer a lost vote of confidence, opening the way for an election in September that seems sure to lead to his political demise. His government has just finalised its budget for next year, which will boast a record deficit, suggesting that a government led by Angela Merkel, leader of the Christian Democrats (CDU) may have to raise not cut taxes.

The dismal state of Germany's public finances affects both the ruling coalition and the opposition. If he did not have to push through a budget that so obviously does not add up, Mr Schröder might have thought twice about advancing the election. And without money to play with, Ms Merkel will find it hard to pursue the ambitious "government programme" that she plans to present on July 11th.

Hans Eichel, the finance minister, is dramatising the fiscal situation so as to blame the opposition for stopping his spending cuts. The federal government will borrow €22 billion ($27 billion) next year, pushing the overall budget deficit well above 3% of GDP, the ceiling supposedly set by the euro-area's stability pact. Public debt will hit €1.5 trillion by the end of 2005, or 68% of GDP. If nothing is done, some projections have debt rising to an Italian-style 111% by 2050. Adding implicit debt, such as pension liabilities, pushes the ratio to three times as high.

During the miracle years, politicians found it too easy to distribute subsidies, riddle the tax code with exceptions and ignore such structural problems as a rigid labour market. But the fiscal consequences of slow growth have been dire. Last year, interest payments, labour-market programmes, pensions and other social spending soaked up almost two-thirds of federal spending (see chart).



Germany's federal system, which gives the states veto power, makes things worse by letting the government cut tax rates, but not subsidies, which consumed almost €60 billion in 2003. Add the costs of unification, mostly financed by debt, and it is easy to see why recent budgets violated the constitutional rule that deficits should be incurred only to finance investment.

All this also explains why German finance ministers have a hard life. They must project the trustworthiness of a chief financial officer, but also have a talent for creative book-keeping. The incumbent, Hans Eichel, once promised a balanced budget by 2006. Now people joke about his securitising future tax revenues (he did this with loans to Russia).

Will Mr Eichel's successor do any better? A CDU-led government will do what it takes to avoid the looming “state bankruptcy”, promises Steffen Kampeter, the party's budget expert. Once in power, it will declare a spending freeze. Then it plans special laws, including wide-ranging cuts in subsidies, to get the budget back on a sustainable track. Because the CDU controls the upper chamber, the Bundesrat, these painful measures have a better chance than usual of passing.

Yet a CDU-led government will want to do a lot more than just get the state's books in order. At first, it might launch reforms that cost nothing, such as more deregulation. But unless the economy unexpectedly bounces back, a clash is inevitable between sound public finances and hoped-for (but costly) reforms to health-care financing or the byzantine tax system. The CDU apparently plans to raise value-added tax to pay for these.

This would also avoid too much stress on belt-tightening, which risks further weakening of domestic demand and consumer confidence. Indeed, it is quite likely that the fiscal situation will get worse before it gets better. It would not be the first time that a new conservative government ended up spending and borrowing more than its centre-left predecessor.

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Italy and America

Rendering unto Caesar

Jun 30th 2005 | ROME
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A row over an alleged kidnapping of a terrorist suspect by the CIA

RELATIONS between Italy and America have been tense ever since the accidental killing of an Italian intelligence officer by American troops in Iraq in March. Now a new sore has emerged: “extraordinary rendition”, the CIA's phrase for snatching terrorist suspects and sending them to third countries where torture is routine. This week Silvio Berlusconi's government, a staunch ally of the Bush administration, summoned the American ambassador in Rome to explain the disappearance in Milan two years ago of a Muslim cleric suspected of belonging to a militant Islamist group.

Hassan Mustafa Osama Nasr (or Abu Omar) was bundled into a van outside his house in February 2003. Italian prosecutors later intercepted calls to Italy in which Abu Omar said he had been whisked back to his native Egypt, jailed, tortured and released. Investigators have knitted together the story of what happened. They think that Abu Omar was taken to the Italian/American air base at Aviano, north of Venice, and then flown to another base at Ramstein in Germany for dispatch to Egypt. They have identified 19 agents—13 men and six women—who prepared or executed the kidnap. Most turned out to have assumed names, but at least two are real, including the alleged co-ordinator, a 51-year-old named Robert Seldon Lady, who was at the American consulate in Milan.

The prosecutors' reconstruction was presented to a judge who, on June 24th, ordered the arrest of 13 American suspects, on charges of kidnapping. Her order has been passed to the European Union's prosecuting unit, Eurojust, which means that police across Europe will soon be obliged to arrest the suspects. Copies of their passport photographs have gone to forensic experts for image enhancement so that reliable pictures can be circulated.

Nothing may happen, as none of the suspects is likely to be in Europe. But the political fallout remains awkward. One question is just how much was known in Italy. The assumption was always that friendly EU governments turned a blind eye to American “renditions”. But this affair challenges that. The anger of the investigators who had been trying to build a case against Abu Omar suggests that their prey was snatched from them without notice. And, speaking to parliament on June 30th, one of Mr Berlusconi's ministers flatly denied that the government had given its approval or even been informed in advance.

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Charlemagne

Europe's new protectionism

Jun 30th 2005
From The Economist print edition

The European Union's fears of China encapsulate its ambivalence over globalisation

EIGHT HUNDRED years after Marco Polo, Europe has rediscovered China. American policymakers have been acutely aware of growing Chinese power for two decades—but the same cannot be said of their counterparts in Europe. When European Union leaders adopted their Lisbon Agenda in 2000—a call for economic reforms aimed at making the EU the world's most competitive knowledge-based economy within a decade—the accompanying research from the European Commission was chock full of references to the United States, but the word China did not appear once.

Belatedly, Europeans are waking up and smelling the Lapsang Souchong. The French vote on the EU constitution unleashed much debate about whether more needed to be done to protect workers from the impact of globalisation. And the lifting of tariffs on Chinese textiles at the beginning of the year provided a practical example of what that impact might be. A flood of textile imports from China was followed by panic among European competitors, and a hastily negotiated bilateral deal to place temporary restraints on Chinese textile exports. Peter Mandelson, the EU trade commissioner who negotiated this, is proud of his achievement. But he notes wryly that just days after he returned from Beijing with his textiles deal, he was visited by European shoemakers seeking similar protection. As one of Mr Mandelson's occasional advisers puts it pithily, “these measures are useless anyway. All they are allowed under WTO rules is two years' extra protection. And then what?”

Beyond the textile case is a surge in trade of all sorts. Chinese exports to the EU have grown by an annual average of 23% over the five years since the Lisbon Agenda was issued. Only 15 years ago, China was not even one of the EU's top ten trading partners. Now it is the second-largest exporter to the EU, and the third-largest importer from the EU. That trade between Europe and China is a little more balanced than between America and China may explain why Europeans were slower than Americans to worry about the Chinese threat to their jobs. The EU's trade deficit with China was $98 billion in 2004, compared with an American trade deficit of $160 billion, even though the volume of trade between Europe and China was greater. But American-style fears about China and jobs have now arrived in Europe. As Mr Mandelson notes, Europeans increasingly associate “globalisation, the rise of China and the loss of jobs and security.”

But what should be done? As so often in Europe, the two poles of the debate are represented by Britain and France. The French elite seems increasingly tempted by protectionism. Britain's Tony Blair, who took over the EU presidency this week, is using the job to urge Europeans to expose themselves more fully to the bracing winds of global competition.

Senior French politicians believe that one reason their compatriots have gone off the EU is that they no longer see it as protecting their way of life. Instead, the man on the Marseilles metro fears that “ultra-liberals” in Brussels are intent on exposing his comfortable lifestyle to merciless competition from the eight central European countries that joined the EU last year, and from even hungrier Chinese and Indian workers farther afield. Having sniffed the new mood, French politicians are responding: the government is doing its utmost to block a single market for services within the EU, and to delay the arrival of free movement of labour from the new EU members.

Senior French politicians are also beginning to talk about “community preference”—a phrase recently used by both Dominique de Villepin, the prime minister, and Nicolas Sarkozy, the coming man in French politics. This is understood to imply a call to erect higher tariff barriers around the EU. The targets would inevitably be China, India and the other Asian tigers. Mr de Villepin has hailed the agreement to restrain exports of Chinese textiles as an example of a united Europe at its finest.

Blair's way

Without explicitly taking aim at the French, Mr Blair had a blast at this incipient European protectionism in his presidency speech to the European Parliament in Brussels on June 23rd. He did not seek to downplay competition from China and India. On the contrary, he made it the centrepiece of his speech, using the rise of new Asian economic superpowers as support for his calls for reform within the EU. But he insisted that the EU must face up to global competition, warning that Europe would risk "failure on a grand strategic scale", if EU countries "decide to huddle together, hoping we can avoid globalisation."

Europe's economic and political future may hinge on which of these two approaches prevails. It is not hard to punch holes in the protectionist case. The idea that competition from Asia is the source of high unemployment in Europe is demonstrable nonsense: French unemployment was already over 10% in the early 1990s, well before the boom in trade with China. The OECD's *Employment Outlook* this week concluded that only a tiny fraction of job losses in western Europe can be attributed to trade liberalisation. Although the OECD acknowledges that competition from Asia will intensify for European workers, its main recommendation is labour-market reforms to encourage the creation of new jobs.

Nor is globalisation a one-way-street. Germany was the world's leading exporter last year, outselling both the United States and China. China, in particular, is a crucial market for the machine-tools that Germany excels in producing. If the EU were to get into a trade war with China, it would risk maiming the export industries of its largest economy. But big business is not popular in either Germany or France: the mood in both countries is frightened and defensive. And these are just the conditions in which plausible-sounding arguments against free trade traditionally gain ground.

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The Supreme Court

Rehnquist's legacy

Jun 30th 2005 | WASHINGTON, DC
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Getty Images

Amid rumours that the chief justice is to retire, conservatives and liberals are arming for a stupendous fight

THE crowd that gathered outside the United States Supreme Court on June 27th was nowhere near as large as the vigil outside the Vatican earlier this year. William Rehnquist, the ailing 80-year-old chief justice, is revered, but not as fervently as the late pontiff; and the conservative justice still seems to be in considerably better health than the pope was.

Yet the institution Mr Rehnquist heads is in some respects like the papacy. Supreme justices are appointed for life and accountable to no one. Their job is to uphold a venerable text, which empowers them to overrule any other branch of government. They are the final arbiters of the limits within which Americans must live, so it is hardly surprising that when a vacancy occurs, the question of who will fill it arouses a fair bit of excitement.

Such vacancies are rare. The newest of the court's nine members, Stephen Breyer, joined in 1994. No one has to retire, but one or more justices are thought likely to step down soon. Many people thought that Mr Rehnquist, who suffers from thyroid cancer, would announce his retirement at the end of the court's current session on June 27th; he is still expected to announce his retirement sometime this summer. A rumour is also circulating that Sandra Day O'Connor may give up for family reasons.

If anybody does go, a long, hot battle will begin. Many of the court's most important decisions have been made by the narrowest of margins—five votes to four. Just one more conservative justice, liberals tremble, might blur the separation of church and state, roll back affirmative action and gay rights and perhaps even overturn *Roe v Wade*, the landmark 1973 case that legalised abortion across the country. Many social conservatives, of course, are praying that George Bush will pick justices who will do precisely that. “The Supreme Court is our number one issue,” says Patrick Trueman, a senior legal counsel for the Family Research Council.

Family-values enthusiasts are confident that Mr Bush wants to push the court their way, but that is no simple matter. First, anyone he nominates must be approved by the Senate, and the Democrats will probably try to filibuster any nominee they hate. It is still not clear how the recent bipartisan deal over this delaying tactic will apply to Supreme Court appointments. But Mr Bush has to steer between the Charybdis of choosing somebody whom his base dislikes and the Scylla of choosing somebody who is so

conservative that moderates will oppose him too.

And that all assumes that Congress knows what the nominee really thinks. Seven of the nine incumbents were appointed by Republican presidents, but some, notably David Souter, have proven less conservative than expected. One cannot necessarily discern what a judge in a lower court believes simply by looking at his rulings, because he is obliged to defer to precedents established by the Supreme Court. If he joins it, he can rule as he pleases.

To make matters more complicated, the court does not always divide neatly along ideological lines. Sometimes, the “conservatives” stick up for “conservative” causes, as in this week's two rulings on displays of the Ten Commandments on government property. In both cases, Clarence Thomas, Antonin Scalia, Anthony Kennedy and Chief Justice Rehnquist deemed such displays acceptable, while Justices Souter, O'Connor, John Paul Stevens and Ruth Bader Ginsburg said they weren't. Justice Breyer reckoned that the one in a Kentucky courthouse was no good, but the one outside the Texas capitol was fine, because it was less prominent and surrounded by secular artefacts. This diluted the implied official endorsement of Christianity, apparently.

Sometimes, however, “conservative” justices make “liberal” rulings. Earlier this month, the Supreme Court had to decide whether federal anti-drug laws took precedence over a Californian law that decriminalised marijuana for medicinal purposes. The court said that they did, because Congress regulates inter-state commerce. Mr Thomas, who is usually pigeonholed as the court's most conservative member, was one of three dissenters. Not because he is a big fan of pot, but because he thinks that it is a big stretch to say that growing it in your backyard to ease the pain of terminal cancer affects inter-state commerce.

The important fact about Mr Thomas is not that he is conservative, but that he is the strictest of the “strict constructionists”. That is, he thinks the constitution means what it says, nothing more. The court's job, he believes, is to apply it, not to “interpret” it in pursuit of desirable social outcomes. He approaches this task with anger and some clarity of thought, as his opinion in *Kelo v New London* showed last week.

The case concerned a city council that wanted to expropriate a stretch of waterfront, against the wishes of some of the people who owned houses there, so that developers could bulldoze them and build a hotel. The liberal justices sided with big government and big business to set a new precedent: the constitution allows such “takings”, so long as the owners are compensated and their land put to “public use”. This has previously been taken to mean something like a public highway. But by a 5-4 majority, the court decided to expand the meaning of “public use”: the government can seize land on behalf of private developers, so long as there is a vague “public purpose”, such as generating more tax revenues.

This would appear to give the government the power to kick anyone out of his home to make way for someone richer. “If such ‘economic development’ takings are for a ‘public use’, any taking is, and the court has erased the public use clause from our constitution,” wrote Mr Thomas in dissent. A conservative prankster promptly filed a petition to confiscate the house of Mr Souter, one of the majority, and build a “Lost Liberty Hotel” over it.

Although strict constructionism is not the same as conservatism, the two philosophies often coincide. This is because since the 1930s the Supreme Court has generally stretched the constitution for progressive ends. One example is the vast expansion of federal power to regulate the economy that the justices approved during the New Deal era. But the one that irks conservatives most is *Roe v Wade*.

The American way

Other countries expect their legislators to legislate on contentious moral issues. In Belgium and the Netherlands, elected representatives have voted to legalise gay marriage; as did the lower house of Canada's parliament this week. The same is true, one way or the other, with abortion. Most European parliaments have legalised it; an Irish referendum kept it illegal.

In America, by contrast, conservatives whinge that abortion is legal because a majority of judges, after peering into the constitution's “penumbra”, discovered a right to abortion that had lain hidden for centuries. As the young Mr Rehnquist put it: “To reach its result, the court necessarily has had to find within the scope of the Fourteenth Amendment a right that was apparently completely unknown to the drafters of the Amendment.”

One reason why the debate about abortion and other moral issues has been more bitter in America than

elsewhere is that many Americans believe that the Supreme Court has usurped powers that properly belong to Congress, the states or the people: that unelected judges are “legislating from the bench”.

Mr Thomas and Mr Scalia believe this with a passion. Mr Rehnquist believes it, too, but he is more reluctant to scrap long-standing precedents. In 2000, for example, he voted to re-affirm the *Miranda* ruling of 1966 (obliging police to remind criminal suspects of their rights when arresting them), although he had earlier expressed doubts about its constitutionality. His reasoning was that *Miranda* “has become embedded in routine police practice to the point where the warnings have become part of our national culture.”

Mr Bush has said that he would like to appoint more strict constructionists: he cites Mr Thomas and Mr Scalia as his models. A Supreme Court packed with Clarence Thomases would be revolutionary. It would seek to reduce its own power, but retroactively, overturning decades of rulings it believed the constitution never empowered its predecessors to make. Abortion rights, environmental protections, labour regulations: none would be safe.

It is a startling prospect, but probably a distant one. Too much radicalism might cost the Republicans future elections, so Mr Bush may opt for caution. And whatever the composition of the post-Rehnquist Supreme Court, it is rare that an institution deliberately shrinks its own powers. Would the pope renounce the doctrine of papal infallibility?

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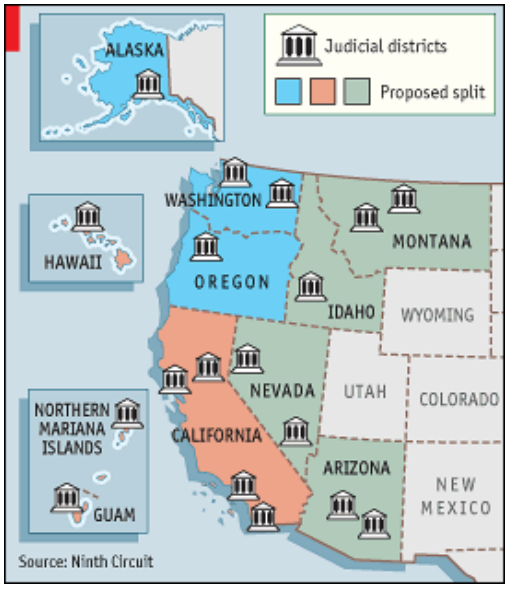
Activist judges

Divide and rule

Jun 30th 2005 | AUSTIN
From The Economist print edition

Republicans want to split America's largest federal circuit into three



BACK when America's courts were created, Supreme Court justices actually had to get on their horses and “ride circuit”, dispensing justice on the gallop. If the Ninth Circuit had existed then, the justices might still be in the saddle. The Ninth is by far America's largest federal circuit, encompassing California (America's most populous state), Alaska (the biggest, geographically) and seven other western states, as well as Guam and the Northern Mariana Islands.

The Ninth has the most work of any circuit in the country, and a big backlog. More than 13,000 appeals were pending last year, about a quarter of the total across America's 11 circuits (plus the District of Columbia). Immigration cases have flooded in. The logjam could worsen as the sunbelt's population booms.

So what could be more pragmatic than a bill introduced this week by Senator John Ensign of Nevada to split the court into three smaller ones? Unfortunately, this is a battle about ideology, not efficiency.

In conservative circles, the Ninth Circuit epitomises “liberal activist judges”. This is the loathed court that ruled in 2002 that reciting the Pledge of Allegiance in public schools was unconstitutional because it includes the phrase “under God”; and in 2003, it said the federal government could not arrest medical-marijuana users who are puffing in accordance with state law. No matter that the Supreme Court overturned the first two decisions (as it has done with many Ninth Circuit eccentricities); these things still rankle with the right.

The Republicans want to confine the Ninth's liberalism to California. Mr Ensign's bill would lump the Golden State with Hawaii and the Pacific territories (which also tend to vote Democratic). Alaska, Oregon and Washington would be their own circuit; so would much more conservative Nevada, Arizona, Idaho and Montana. New circuits would also mean George Bush could appoint more judges, though it would also create more work for the Supreme Court, which would have more circuits feeding cases into it.

Most judges on the Ninth Circuit oppose a split. Mary Schroeder, the chief judge, says that dislike of her court's decisions is a “bad reason to split”. And “there is no way to split equitably,” since 70% of the circuit's caseload comes from California. Chopping California in half would solve that problem but create a worse one: nobody wants two different bodies of federal casework to govern one state. And if California were on its own, it would also defy the point of having federal courts, which often adjudicate law governing more than one state. Far better, says Ms Schroeder, to boost the court's staffing. There are currently four vacancies for judges on the Ninth Circuit.

Republicans have looked at the idea of splitting up the court before. Last year, the House passed a bill supporting a three-way split. But the Senate has always been a bigger obstacle. Dianne Feinstein, California's most important Democrat, has vowed to fight hard against any split; she also says she has the backing of Governor Arnold Schwarzenegger, the state's leading Republican.

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The home front

Once more unto the breach

Jun 30th 2005 | WASHINGTON, DC
From The Economist print edition

George Bush recalibrates his message, if not his policy, on Iraq

AP

Called to account

ON JUNE 28th George Bush delivered his first nationally broadcast speech on Iraq since his re-election, choosing the martial surroundings of Fort Bragg, North Carolina. The speech formally marked the first anniversary of the transfer of power to the Iraqi government. But it took place against a backdrop of unease about the war, thanks to a daily diet of suicide bombings, troop casualties and conflicting messages from the administration.

Mr Bush's speech was an exercise in re-educating the public rather than changing policy. He pointedly failed to lay out a timetable for withdrawal (other than saying that “as the Iraqis stand up, we will stand down”). He said that he had no plans to send more troops to the region unless the commanders on the ground specifically requested them. And he ignored calls for the establishment of “benchmarks” to measure success or failure.

Instead he reiterated his belief that the war in Iraq was part of the wider “war on terror”. There were five direct mentions of September 11th and numerous allusions. If America fails in Iraq, it will “yield the future of the Middle East to men like [Osama] bin Laden”, he argued; but if it succeeds, it will bring democracy and stability to a troublesome region, a process that has already begun in Lebanon.

Much of the speech bore a striking resemblance to one he gave 13 months ago at the Army War College in Pennsylvania. Indeed, he side-stepped questions that have loomed ever larger in the past 13 months—about the rationale for going to war in the first place, and about the quality of post-war planning. But the fact that he decided to deliver a prime-time address shows that the White House is determined to regain the initiative on the politics of Iraq.

The administration has made two grave errors on the home front since Mr Bush's re-election. It has focused overwhelmingly on domestic issues—particularly Social Security. And it has delivered bromides about “progress in Iraq” rather than a measured defence of its position. This has allowed congressional critics of the war to reshape the debate.

In the past fortnight, Mr Bush has met Iraq's prime minister, Ibrahim al-Jaafari, and Pentagon officials have been dispatched to Capitol Hill. Karl Rove, Mr Bush's chief political adviser, has gone on the offensive. Conservatives were “prepared for war” after September 11th, he claimed; but liberals wanted to “offer therapy and understanding for our attackers”.

Mr Bush's speech also marked two subtle shifts. The first is a growing willingness to drop happy talk in favour of sober realism. He even compared the current situation in Iraq to the darkness at the mid-point of the American Civil War. The second is a heavier emphasis on the “flypaper” rationale: it is better to fight terrorists over there than waiting to fight them over here. Each firefight is necessary work.

A single speech will not help Mr Bush that much. The Democrats have become much bolder in calling him to account. Joe Biden, the ranking Democrat on the Senate Foreign Relations Committee, disputed Mr Bush's assertion that military commanders in Iraq don't want more troops. John Kerry accused Mr Bush of defending his policy on the basis of a threat that did not exist before he invaded the country. Others disputed Mr Bush's attempt to link the Iraq war with September 11th.

The public also needs a lot more persuading. The blip of optimism after the elections in January has now flat-lined. More than half those questioned in a Gallup poll released on the day of the speech said sending troops to Iraq was a mistake. His audience at Fort Bragg—750 members of the 82nd Airborne Division and the Army's Special Operations unit—were silent for most of his speech.

Not beaten yet

Yet it would be a mistake to say that Mr Bush can't at least hold the line on Iraq. Arguably, the most remarkable thing about his poll numbers is not how low the ceiling is but how high the floor is. In a sample of 76 national polls taken since the start of the year, all but eight put his approval ratings between 44% and 52%. As Charlie Cook of the *National Journal* points out, that compares with lows of 24% for Richard Nixon, 37% for Gerald Ford, 28% for Jimmy Carter, 40% for Ronald Reagan, 29% for George Bush senior and 37% for Bill Clinton.

Mr Bush enjoys rock-solid support among about 85% of Republicans. The Democrats are divided between a left-wing that wants America to produce an “exit strategy” rapidly and a party establishment that still believes getting out would be a disaster. Mr Kerry refused to call for troop withdrawals.

Meanwhile, the public is deeply ambivalent: worried that Mr Bush doesn't have a plan but reluctant to leave Iraq to terrorists. A recent *Washington Post*/ABC News poll found that 58% of those surveyed wanted to keep Americans there “until civil order is restored”. Mr Bush has work to do, but he is a long way from losing the domestic argument over Iraq.

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Mitt Romney and gay marriage

The slippery slope to bestiality

Jun 30th 2005 | BOSTON
From The Economist print edition

The governor hopes family values will give him a shot at the presidency

IN JANUARY 1919, a huge tank of molasses burst open in a Boston freight yard, drowning 21 people and demolishing a fire station. The tragedy has all but faded from memory, but some might consider it an apt simile for Mitt Romney's job. Being the Republican governor of such a liberal state as Massachusetts must be like swimming through sugary sludge. Everywhere he looks, he is surrounded by sweet-talking liberal legislators, judges and citizens. No wonder he wants to be president.

Since George Bush can't run for re-election and his vice-president, Dick Cheney, has said he won't, the Republican nomination for 2008 is up for grabs. Though it is still early days, Mr Romney's advisers admit that he is testing the waters.

He has a chance. Republicans like governors, and Mr Romney is also a self-made squillionaire with executive-style hair and no apparent vices. He drinks nothing stronger than fruit juice, and his idea of strong language is “h-e-double-hockey-sticks”. To cap it all, in 2003, Mr Romney and two of his sons saved a family of six and their dog from drowning. The governor has only one obvious handicap. He is a Mormon, and 17% of respondents told a Gallup poll in 1999 that they would not vote for a Mormon for president.

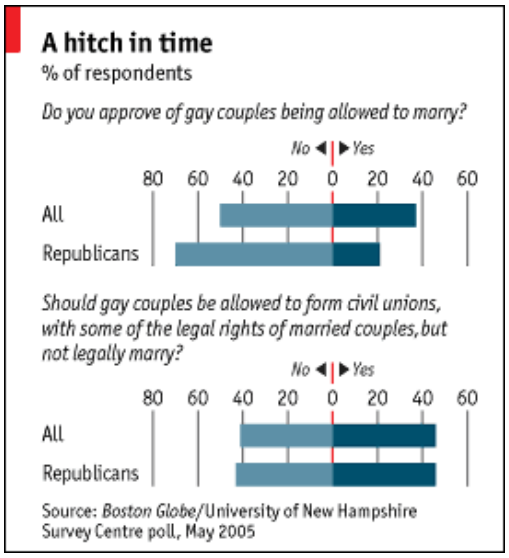
Mr Romney made his fortune as a venture capitalist, injecting cash and managerial competence into firms such as Staples, a stationery chain, and Domino's, a pizza empire. He then won a measure of fame by rescuing the Salt Lake City Winter Olympics from scandal and bankruptcy. This enabled him to run for the governorship of Massachusetts in 2002, presenting himself as a nice, efficient chap who would act as a counterweight to the huge Democratic majority in the legislature.

In Massachusetts, he still presents himself as a pragmatist. His greatest achievement as governor was to fix the state's fiscal crisis without raising taxes, says Charley Manning, a campaign adviser. His top priorities are the state's economy, jobs, education and health care. Last week, he announced a bold plan to make Massachusetts the first state with universal health coverage, while at the same time making sure that those who can afford to pay for insurance do so.

To win the Republican nomination for the presidency, however, he needs to convince cultural conservatives that he is one of them. He is trying hard to do just that. When he visits states where crucial primaries will be held in 2008, his speeches get redder. He stresses his opposition to abortion, stem-cell research (though it might help his wife, who has multiple sclerosis) and, especially, gay marriage.

In November 2003, the Massachusetts Supreme Court ruled that gays had a constitutional right to marry. Since May last year, when the ruling came into effect, some 6,000 homosexual couples have married in the state, which is the only one to grant full marriage rights to gays. “After 20 years of feeling committed, it's nice to feel celebrated and recognised,” says Arthur Lipkin, sipping red wine on the porch of the Cambridge home he shares with his “husband”, Robert Ellsworth. Mr Lipkin rhapsodises about domesticity: “I cook the evening meal, and enjoy being told how great it is,” he says.

Conservatives are outraged. They accuse the court of twisting the state constitution, noting that, unsurprisingly for a document that predates even the United States constitution, it says nothing about gay marriage. More generally, religious traditionalists complain that allowing homosexuals to marry will degrade the most important institution of a civilised society. Some even claim that it could open the door to legalised unions with horses.


A hitch in time
% of respondents
Do you approve of gay couples being allowed to marry?
No ◀ | ▶ Yes
80 60 40 20 0 20 40 60
All
Republicans
Should gay couples be allowed to form civil unions, with some of the legal rights of married couples, but not legally marry?
No ◀ | ▶ Yes
80 60 40 20 0 20 40 60
All
Republicans
Source: Boston Globe/University of New Hampshire Survey Centre poll, May 2005

Mr Romney's reaction has impressed family-values types. First, he revived a forgotten 1913 law barring out-of-state couples who cannot legally wed in their home states from marrying in Massachusetts. (The law was originally drafted to stop inter-racial couples from the South from coming to Massachusetts to tie the knot.) Had he not done so, gay marriage might have spread to other parts of the country, since a marriage licence granted in one state is usually valid in others.

Second, Mr Romney has backed a campaign to reverse the court's decision. Two state referendums are mooted. One proposal would ban gay marriage but allow civil unions, so that gay couples (or, for that matter, two spinster sisters living together) can receive the same tax breaks and health benefits as married couples, without their relationships being recognised as equivalent. A second, which Mr Romney prefers, would simply ban gay marriage. Kris Mineau, a retired fighter pilot who heads the Massachusetts Family Institute, is very pleased: “The governor has been upfront about his values.”

If Mr Romney is courting national popularity, he is certainly on the right side of the argument on gay marriage, especially with Republicans (see chart). But civil unions are more popular—and Mr Romney has to watch his reputation for pragmatism. The governor is “seeking to increase his stature among national conservative Republicans by demeaning his gay and lesbian constituents back home in Massachusetts,” says Marty Rouse, the campaign director for MassEquality, a gay-rights group. “Mitt's a twit” adds one of the group's bumper-stickers.

That's about as rough as the culture wars get in Massachusetts. Most people have barely noticed the cultural quake in their midst, for matrimonially-inclined gays like Mr Lipkin are a minority within a minority. “[Marriage] is great for some people, I guess,” muses Bob Pitko, a bartender at the Ramrod Leather and Denim Cruise Bar on Boylston Street in Boston. “But the majority of gays will never get married. We want to have as much sex as we possibly can.”

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An energy bill at last

One more time

Jun 30th 2005 | NEW YORK
From The Economist print edition

The White House may yet get its energy policy through Congress

"WE MUST rethink how America produces, conserves and uses energy—and this bill is an important start." So declared Bill Frist, the majority leader of the Senate, this week. He was crowing about the fact that, on June 28th, the upper chamber had at last passed an energy bill.

Mr Frist is certainly right about the need for fresh thinking on energy. After all, oil prices are close to $60 a barrel, and the average fuel economy of new vehicles in America is close to a 20-year low. Yet there is little fresh thinking to be found in this lavishly stuffed version of the backward-looking bill passed by the House in April, which itself was based on the White House's fossil-friendly energy plan. Indeed, a better way to describe the Senate's bill would be "More of the same, but with bigger subsidies for everything."

The oil and gas industry gets the most pork. Much of the $14 billion in the bill's tax incentives goes to fossil fuels. The bill also calls for an inventory of oil and gas on federal lands, including offshore reserves that are now protected from drilling. That could be the thin edge of the drilling-bit.

The Senate bill differs from the House version in several ways. For a start, it could prove more expensive; it has $8 billion more in guaranteed spending over the next decade. In order to secure a convincing victory (85-12), Republican leaders had to spread around dainties to Democrats' pet projects. Thus the Senate version calls for a national standard on generation of renewable electricity—something the White House hates. And it ushers in even more subsidies than the House version for ethanol, an ungreen, uneconomic petrol additive, typically made from corn, which is popular with mid-western politicians.

To be fair, the Senate bill has a few worthwhile provisions. By requiring electricity-reliability standards, it would make blackouts less likely. The bill also promotes "smart" electric meters and real-time pricing, both essential for the growth of micropower technologies such as fuel cells. And it would also make it easier to build transmission lines, terminals for liquefied natural gas and other unpopular but necessary bits of energy infrastructure, currently cursed by America's BANANA syndrome ("Build Absolutely Nothing Anywhere Near Anybody").

The wrangling is not over yet. The Senate and House must now go into conference to work out a compromise. The signs are that a deal is brewing, in part because some divisive issues have been sidestepped. The thorny question of whether to allow drilling in Alaska's wilds may be decided as part of a separate budget bill rather than in this conference. The Senate dabbled with imposing mandatory curbs on global-warming gases, something the House (and Mr Bush) would have rejected, but in the end backed off.

One spoiler could be MTBE, a problematic petrol additive that has polluted groundwater in parts of America. House members, especially those from Texas, want to protect the industry from lawsuits, but many senators are outraged at that idea. The other spoiler could be nuclear power. Mr Bush may try to sneak in a subsidy for new nuclear plants in the form of risk insurance against regulatory delays. That will enrage fiscal conservatives and anti-nuclear types in both chambers.

If talks break down, it will be the third time in four years that Congress has failed to pass an energy bill. This time, the odds are that something will get through—if only because both the White House and Congress are desperate to have something to show by the August recess. Whether it will be a good law is another matter.

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Transport in Seattle

Mono-mania

Jun 30th 2005 | SEATTLE
From The Economist print edition

A cool idea becomes a financial nightmare

In your dreams

IT IS home to Boeing, Starbucks and Microsoft (as well as to Ichiro Suzuki, the hippest baseball player in the world). But Seattle's other, lesser boast is that it probably has the worst transport planning in North America.

Geography doesn't help; traffic has to be squeezed between mountains and sea along a handful of narrow corridors. But the real bugbear is the region's conflicting or overlapping transport plans. Each local authority wants to control its own; each has its own administration, engineers and schedule planners; and all compete for passengers and funds.

In King County, where Seattle sits, Metro Transit's 1,300 buses work to ferry people between suburbs and the big city. A system called Sound Transit is building train and bus services throughout King County and next-door Pierce and Snohomish Counties (which also have their own bus systems). The city of Seattle operates a trolley line. Now construction may soon start on a monorail—an elevated, single-track train—that would wend its way for 14 miles (23km) from neighbourhoods in north Seattle to those in the city's south-west.

The monorail was approved by voters in 2002 as a populist alternative to Sound Transit, at the time beset by cost overruns and questions over its management. It seemed cool to vote for a train system no other big city is using on such a large scale. To add to its anti-elitist lustre, the monorail was designed to serve middle-income districts that Sound Transit neglected.

The cost for the first stage was pegged at around $1.75 billion, paid for with a now unloved car tax. Since then—and this will shock no-one—the costs have increased to about $1.9 billion. To pay for it, the monorail's managers plan to borrow a whopping $9.3 billion, to be paid off over nearly 50 years.

That startling figure—nearly five times the cost—has caught the public's attention, to say the least. Michael Murphy, Washington state's treasurer, remarked in mid-June that the monorail's financing plan was “ludicrous” and threatened to damage the credit-rating of the entire state. Monorail officials have fired back, insisting that the system's cost is in line with what voters approved, and complaining that they are being unfairly maligned for openly stating the full borrowing and operating costs. Maybe. But monorail planners also over-estimated tax revenues, which have fallen about one-third short of projections.

Now Seattle City Council must approve the monorail's financing plan before letting building go ahead. Weeks ago, approval seemed certain, but not any more. This, in a way, is unfair. For though the monorail scheme has flaws aplenty, the real culprit is the political culture that allowed its creation in the first place.

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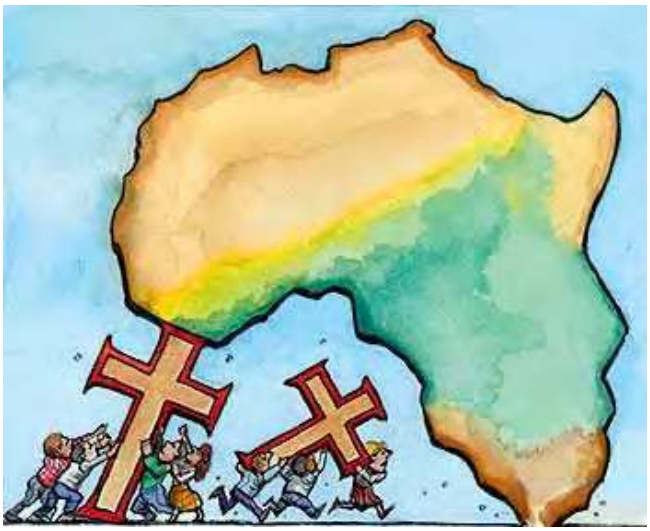
Saving Africa, the conservative way

Right on

Jun 30th 2005
From The Economist print edition



Bob Geldof and Bono have some unlikely friends in America

RICK WARREN is arguably the most influential evangelical pastor in America. His Saddleback church in California is the largest megachurch in the country, with 20,000 worshippers every Sunday; one of his websites, Pastors.com, provides “resources” such as sermons to 140,000 pastors around the country; and his book, “The Purpose-Driven Life”, has sold 25m copies. Mr Warren now has a new cause. God has told him to serve the world's downtrodden, he says, particularly in Africa; and Saddleback is sending missionaries there to fight poverty and disease, starting in Rwanda.

Mr Warren is not alone. America's evangelicals are beginning to embrace international causes such as poverty with the same fervour that they have long brought to domestic causes. The overseas issue that first excited their interest was a specifically religious one—the persecution of their fellow Christians around the world. But since the passage of the International Religious Freedom Act in 1998, in the teeth of fierce opposition from the Clinton administration, their interest has broadened to include America's policies on, among other things, sex trafficking, the civil war in Sudan, North Korea, international debt relief and AIDS. They are at the centre of a whirligig of congressional legislation, presidential initiatives, diplomatic manoeuvres, international protests and stock-divestment campaigns.

If the European campaign for aid for Africa is dominated by bleeding-heart liberals, poring over the *Guardian* and *L'Humanité*, the American campaign is dominated by Bible-believing Christians, poring over their copies of *Christianity Today* and discussing abstinence pledges. In Europe, the campaign to help Africa is fronted by a foul-mouthed Irish rock star. In America, you are more likely to run into Sam Brownback, a fiercely conservative senator from Kansas, who has sponsored legislation condemning Sudanese slavery, or Chuck Colson, a born-again Nixon operative who served time for Watergate and wants American Christians to recover the heritage of William Wilberforce. Both would probably tell Sir Bob Geldof to get his hair cut.

By no means all these Christian activists are card-carrying conservatives. Jim Wallis, a prominent left-wing evangelical, is leading an ecumenical group of Christians to Britain for a pre-G8 summit. Mr Warren has shrewdly branded himself as a moderate (though he subtly signalled his support for George Bush in the last election). But over the past decade, much of the hard lifting has been done by members of the religious right.

That is partly because conservative churches are far more buoyant than their liberal rivals are. The Southern Baptists send more missionaries abroad than all the mainline Protestant denominations combined. But it is also because they are much better placed to advocate compassion in the Bush White House. During a discussion of a plan to spend $15 billion fighting AIDS, the president turned to his silver-penned speech-writer (and fellow Christian), Michael Gerson. “Mr President,” came the reply, “if this is possible, and we don't do it, we will never be forgiven.”

Until recently, evangelical Protestants had taken a rather isolationist view of foreign policy (with a particular loathing for the unGodly UN). Why are they now so interested in global poverty? Allen Hertzke, author of the excellent “Freeing God's Children: The Unlikely Alliance for Global Human Rights” (Rowman & Littlefield), points to two developments.

First, evangelical America has become increasingly sophisticated. The teachers and bankers flocking to the megachurches want to spend their political capital on more than just abortion and gay marriage. Second, Christianity has shifted to the developing world. In 1900, 80% of the world's Christians lived in Europe and in America; today, 60% live in the developing world. More Presbyterians go to church in Ghana than in Scotland. America's evangelical churches are intent on gathering souls in these new places. In 2002, for instance, the Southern Baptist Convention spent $290m abroad, establishing 8,369 churches and baptising 421,436 converts. Many missionaries return home shocked by the poverty and disease that they have encountered.

A billion volunteers

This new side to evangelical America has all sorts of consequences for American politics. White Protestants have pulled the Republican Party to the “right” on domestic causes for the past quarter-century; now they are beginning to pull the party to the “left” on international issues. This is producing some unexpected political alliances—with the black congressional caucus over Sudan, for example, and with feminists such as Gloria Steinem over sex slavery. It is softening the religious right's sometimes fearsome image. And it is handing power to more moderate figures such as Mr Warren who can mediate between right and left.

Evangelicals are also changing foreign policy. In the perennial battle between Kissingerian realists and neoconservative idealists in Washington, they help tip the balance towards idealism. They are also helping to reconfigure America's somewhat moribund human-rights movement (though evangelicals are notably less upset about Guantánamo Bay than Amnesty International is).

There are undoubtedly dangers in marrying aid with faith. Evangelicals can sound uncomfortably like latter-day Dr Livingstones, determined to convert the heathen to Christianity and abstinence. They also find it difficult to work with people they disagree with (including each other). But they do have things to offer, including a global network of churches that can deliver everything from education to medical treatment. “We've got more volunteers than anybody else,” says Mr Warren. “Government doesn't have a billion volunteers. Business doesn't have a billion volunteers.”

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Economist.com PRINT EDITION THE AMERICAS

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Drugs and violence in Mexico

The war on the border streets

Jun 30th 2005 | MEXICO CITY AND NUEVO LAREDO
From The Economist print edition

EPA

Americans' demand for illegal drugs has created powerful crime syndicates in Mexico. The country's police, only partly reformed, struggle to keep up

IN HIS office in a small house just south of the border with the United States, Jesús Salazar Almaguer hands visitors copies of prayers for peace. Mr Salazar, the vicar-general of the bishopric of Nuevo Laredo, is tired of the violence that has beset his city. “María, queen of peace, plead for us,” the prayer reads. But Mr Salazar reckons that temporal powers can help too. “People out of work need money, so they sell drugs. The American authorities need to change their way of thinking.”

Mr Salazar is not alone in this belief. The failure of drug prohibition in the United States is wreaking havoc in northern Mexico. In the past, much Colombian cocaine reached the United States through the Caribbean. Repression has made that route riskier. But instead of checking the overall flow, this has merely re-routed it via Mexico. According to an assessment by the United States' government, last year 92% of cocaine entering the country did so through Mexico, up from 77% in 2003.

The story is the same for other drugs. The United States Department of Justice's latest National Drug

Threat Assessment notes that marijuana production in Mexico increased by 70% in 2003 (the most recent year for which figures are available). It also gives warning that Mexico's output of heroin and methamphetamine is increasing. Anthony Placido, an official at the Drug Enforcement Administration (DEA), told Congress recently that methamphetamine seizures on the United States southern border are up 74% since 2001.

According to the threat assessment, Mexican criminal gangs “exert more influence over drug trafficking in the US than any other group.” Mexicans now control 11 of the 13 largest drug markets in the United States, according to an American official.

The effects of the tightening grip of Mexican organised crime are being felt south of the border as well as north of it. “It is not our problem, but we have to pay for it,” says Raymundo Ramos, a human-rights activist in Nuevo Laredo. His city, the busiest crossing on the border, has this year found itself in the middle of a turf war between rival gangs. According to reports in Mexican newspapers, at least 300 people have died in drug-related violence in six of the country's northern states so far this year. Many were the victims of execution-style killings.

Mexican and American officials agree that the rising violence stems in large part from a battle to fill a power vacuum left by the arrest of two prominent traffickers. In 2002, Mexican police detained Benjamín Arellano Felix, the head of the Tijuana “cartel”; in 2003, they arrested Osiel Cárdenas Guillén, who headed the Gulf “cartel”. According to Mr Placido's testimony, a group called the “Federation” (also known as the Sinaloa “cartel”) has been trying to capitalise on the weakness of the Tijuana and Gulf gangs to take over their territory.

Far from combating the drug mobs, the police in Mexico have all too often been their allies. In that respect, however, there are a few hopeful signs of change. The efforts of Mexico's president, Vicente Fox, to enact sweeping reforms of the police and of the criminal-justice system have fallen foul of congressional opposition. But his government has shown much willingness to try to do something about drugs. In 2002, the government formed the Federal Agency of Investigation (AFI), an elite force partly modelled on the American FBI. It is proving to be more effective than any other police body has been in the past in Mexico. And reforms of the judicial system, though blocked at the federal level, are slowly proceeding state by state.

The AFI apart, corruption and incompetence remain hallmarks of Mexico's police. It not always clear which of the two is the bigger problem. Jorge Chabat of CIDE, a university in Mexico City, notes that part of what distinguishes the AFI's members are such mundane skills as being able to use a computer—skills which most Mexican police seem to lack. Other things, too, differentiate the AFI from the norm, notes the American official. It has a cadre of young, college-educated officers whom it has kept separated from older officers who might corrupt them. It has a clear, merit-based career structure, and presidential encouragement. Mr Fox is said to attend every AFI academy graduation. All this seems to have kept the new force relatively clean. The American official sees the appeal to patriotism as especially important. In contrast, “our president sure doesn't come to the DEA graduations,” he notes.

Although the AFI is only a small star in the murky universe of Mexican policing, at least it provides a starting point for rooting out police corruption. Notably, a joint operation by the AFI and the army in early June, which saw the suspension of the entire local police force of Nuevo Laredo, appears to have been at least a partial success. The operation was triggered by the murder of a new local police chief, apparently with the help of some of his subordinates. The subsequent investigation has led to the firing of 100 of the force's 700 officers who failed either drug or polygraph tests, and to the rescue, on June 27th, of 43 people who had been held captive by drug gangs in Nuevo Laredo.

Partly because of the creation of the AFI, a past history of mutual mistrust between Mexican and American law-enforcement officials has given way to closer co-operation under Mr Fox. But that does not mean that the drug “war” is being won. “Once (a drug shipment) hits the ground in Mexico, you might as well say it's in the United States,” says the American official. That is partly because of the lack of effective co-ordination among the various American law-enforcement agencies operating on the border.

The sheer scale of the United States' illegal imports of drugs from Mexico has created some of the world's most powerful and dangerous organised criminal gangs. Taming them will be neither easy nor quick. Despite the manifest failure of the drug “war”, American officials see talk of legalisation as “surrender”. The result is that Mr Salazar's prayer seems unlikely to be answered soon.

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Venezuela

Bank raid

Jun 30th 2005 | CARACAS
From The Economist print edition

Reserve money for the revolution

Get article background

HUGO CHÁVEZ, Venezuela's left-wing president, has long cast a covetous eye at the foreign-currency reserves of the Banco Central de Venezuela (BCV), the country's central bank. With prices for Venezuela's oil exports at record levels and with strict exchange controls in place, those reserves have climbed to almost $30 billion. This, say officials, is $10 billion-12 billion more than is needed to back the country's currency. The “excess”, they say, should be turned over to the government to spend on Mr Chávez's socialist revolution.

Last year, the BCV yielded to government pressure and allowed Petróleos de Venezuela (PDVSA), the state oil monopoly, to divert $2 billion of its dollar revenues that would normally be deposited at the bank into a new fund for social projects. Despite the objections of some BCV officials, the government has taken this to be a “rotating” fund, to be topped up as and when necessary.

Now this fund is to be absorbed into a bigger one, called Fonden (the National Development Fund). A bill close to approval by the National Assembly will require the bank to divert at least $5 billion into Fonden this year, and to make annual payments thereafter. These billions, officials cheerfully admit, constitute a parallel budget whose spending will be decided by the president alone. That looks to be against the constitution, drawn up under Mr Chávez in 1999: Article 314 states that “no kind of spending will be made which has not been foreseen in the Budget Law.”

Orthodox economists are aghast. But most concede that the transfer of funds in itself is unlikely to lead to a swift devaluation or to higher inflation. Government spokesmen say that the money will not be spent in Venezuela but instead will be used to pay foreign debts or to purchase capital goods abroad. However, the bill's text refers to education and health projects, as well as to vague “special and strategic situations”.

Opponents see another blow to Venezuela's institutions. The constitution sets as the BCV's objectives price stability and the maintenance of the value of the currency. The BCV is prohibited by law from endorsing or underwriting deficit financing. But in practice, it is coming to resemble a government piggy-bank. PDVSA, too, is being used to further Mr Chávez's purposes: on June 29th, he signed an energy co-operation pact with 13 Caribbean countries, including Cuba. This codifies, and may expand, schemes under which Venezuela supplies subsidised oil. In return, it can expect diplomatic support in regional bodies.

Mr Chávez often calls on Venezuelans to fight corruption, which the government blames on capitalist thinking. Opponents point out that the president is dismantling the checks and balances required to deter it. But even if some is stolen, much of the money from the BCV may end up funding social projects. Venezuelans are likely to show their appreciation for that by supporting Mr Chávez in a parliamentary election in December. One day they may come to rue their complaisance.

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Ecuador

A caretaker with ambition

Jun 30th 2005 | QUITO
From The Economist print edition

Edging away from reform

Get article background

HE MAY be a usurper, but he is a popular one. Even so, Alfredo Palacio risks over-reaching himself. As the vice-president, he took the top job in April after street protests and a congressional coup forced out the elected president, Lucio Gutiérrez. Dr Palacio, a cardiologist, says that his country is “still in critical condition”. An election is due in 15 months. Before then the ambitious caretaker, who is Ecuador's seventh president in eight years, wants to change many of his country's institutions.

He has started with the courts, where Mr Gutiérrez's problems began. In a vain effort to keep his job, Mr Gutiérrez last year sought to placate his congressional allies by dissolving the Supreme Court. A new court promptly absolved a fugitive former president who faced corruption charges. Outrage at that verdict led to Mr Gutiérrez's ouster even though he had dissolved that court too. Two months later, Ecuador is still without a Supreme Court. At Dr Palacio's urging, Congress set some new rules for choosing one. But the committee charged with vetting nominees is only now being formed. Meanwhile, the country remains in legal limbo.

The president has had better luck elsewhere. He replaced the armed forces' commanders, although it was their refusal to defend Mr Gutiérrez which allowed Dr Palacio to come to power. He wants a referendum on political reform, though the details are vague. He has a working alliance with three of the main parties in Congress. But his lack of formal affiliation with any of them has helped to give him an approval rating of 64% according to one poll.

It helps him, too, that he has taken over when Ecuador is awash with oil money. Dr Palacio is keen on spending it. In a country which has twice defaulted on its debts in the past two decades, Mr Gutiérrez had imposed rare fiscal discipline. His government paid windfall and some other oil revenues into a fund, and earmarked 70% of this for debt repayments.

Rafael Correa, an academic who is the new finance minister, is steering through Congress a plan under which only 30% of the oil fund will now be used for debt repayment. In theory, the rest is supposed to go on social investment and infrastructure. In practice, the extra money may be used simply to plug a widening hole in the government's accounts.

On June 27th, Mr Correa told investors in New York that the government had no plans to restructure its debts, local or foreign. But many investors are sceptical. Standard & Poor's, a ratings agency, recently downgraded Ecuador's credit rating. It is not clear whether the World Bank and other multilateral donors will continue to disburse credits to Ecuador. Mr Correa talks of seeking loans from China. Despite Dr Palacio's grand schemes, the more humble goals of economic reform, sound administration and political stability look further away than ever.

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Canada

Burghers beef over mad economics

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From The Economist print edition

Reuters

Trade bans and safety scares hurt farmers and consumers alike

THERE was more than a hint of *Schadenfreude* in Canada at the news last month of a new case of bovine spongiform encephalopathy or BSE ("mad cow" disease) in the United States. That was because when a cow in Alberta was found to have BSE in 2003, the Americans closed the border to Canadian beef, throwing the country's C$7.7 billion ($5.5 billion) cattle industry into chaos. In March, the United States Department of Agriculture proposed to lift the ban, but it has been challenged in the courts by a Montana cattlemen's group. They argue that letting in Canadian live cattle risks infecting the pristine American herd.

It is pristine no more. A first case of BSE in the United States in 2003 involved a Canadian cow, but the new case is homegrown. "Most of [the Montana group's argument] was BS, without the E," Alberta's agriculture minister, Doug Horner, told a local paper. But scoffing doesn't grill any steaks. Alberta saw two more BSE cases earlier this year. Even Mr Horner doesn't believe that the border will open completely any time soon. An American court is due to rule later this month, but its decision is likely to be appealed.

Where does that leave Canada's beef industry? Before the ban, it formed a seamless whole with its American counterpart. In 2002, it sent 1.3m live cattle south to be killed and processed, with some of the finished product sent back to Canada. Like many other Canadian industries, almost all its exports went to the United States.

Closing the border caused problems in both countries, but of an opposite kind. The United States had too much slaughter capacity but too few cattle. Canada had only six big meat packers—and too much meat on the hoof. The number of cattle on Canadian farms rose from 13.5m at the start of 2003, to 14.7m a year later and to 15.1m at the beginning of this year.

Hardest hit at first were the farmers. They have received much of the C$2 billion in aid to the industry shelled out by the federal government. Yet even the total aid is equal only to a single year's revenue from the export of live cattle.

And consumers? All those extra cattle milling around might sound like good news. Not so. Two years ago, after the government banned the risky bits of cows from the human food chain, Canadians were urged to do their patriotic duty and eat more beef. "We can eat our way out of this," said the president of the Canadian Cattlemen's Association. Canadians tried to do so: in 2003, beef consumption per head

was 14.2 kilos (31 lbs), up 5% on 2002.

Despite the supposed glut, however, prices for the most popular cuts quickly climbed above pre-crisis levels. While the price of cattle fell 50% between May and July 2003, the average retail price of beef fell only 14%. Prices for these cuts rose again during the 2004 summer barbecue season and stayed there. As a result, consumption has slipped back towards its level of 2002.

The main beneficiaries were the six big processing plants, two of which are American owned. Alberta's auditor-general found that at the three biggest plants, profit per cow processed almost tripled in the last six months of 2003 compared with the same period in 2002. That has prompted the agriculture committee of the (federal) House of Commons to threaten fines.

Unfairly so, perhaps. While the border remains closed to live cattle, it was reopened in August 2003 for trade in boxed, boneless beef. With prices higher in America, Canada's exports of boxed beef and beef products have surged to record levels. The market signals have been heard: two more meat packers have opened in Canada in the past year, while five more await approval. Two of the big operators are expanding capacity, unfazed by the idea that the border may eventually reopen.

Until the new plants start up, the biggest losers have turned out to be consumers. They pay through taxes to support the industry, while paying higher prices at the butcher's because they are competing with American consumers for prime cuts. As Canada's politicians prepare to meet their constituents on the barbecue circuit this summer, they are likely to get an earful from both consumers and farmers about just how costly BSE has been.

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Correction: Roberto Jefferson

Jun 30th 2005
From The Economist print edition

In our story on Brazil last week ("Jeffersonian democracy, tropical style") we stated that the accompanying picture showed Roberto Jefferson "testifying in Congress". In fact he was being interrogated by a panel of television journalists. Sorry. This error has been corrected online.

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Iran

Is the president-elect as grim as he sounds?

Jun 30th 2005 | TEHRAN AND TABRIZ
From The Economist print edition

EPA

Reformers are in despair, for the new man is in tune with the repressive rule of the conservative ayatollahs

"WE SHOULD reach out to each other, for we are all from the same family," says Mahmoud Ahmadinejad, Iran's hard-sounding president-elect, in an effort to reassure reform-seeking Iranians who were shaken by his election, in a run-off on June 24th, to the country's second highest office. His government, he said, would make no room for "any type of extremism". But he rode to power on promises—of private piety, public probity and wealth redistribution—that recall the fervour of the revolution of 1979, which overthrew the shah and brought Ayatollah Khomeini and his Islamist allies to power. Mr Ahmadinejad's unexpected triumph carried with it more than a whiff of reactionary anger.

He may have squeezed into the run-off, after a first round that eliminated five of the seven candidates, thanks to illegal canvassing in his favour by a nationwide militia of religious vigilantes known as *basijis*. According to the Interior Ministry, which is controlled by the outgoing (reformist) government of President Muhammad Khatami, the run-off was marred by "unprecedented irregularities". But Mr Ahmadinejad is at least half-right in attributing his election to the "popular will", for he trounced his second-round opponent, Akbar Hashemi Rafsanjani, by 17.3m votes to 10m in a turn-out of 49%, a far bigger margin than anyone thinks he could have achieved by purely dishonourable means.

How, then, to interpret the people's will? To be sure, Mr Ahmadinejad's triumph reflects popular disdain for Mr Rafsanjani, a former president whose tenure, from 1989 to 1997, is widely associated with corruption. More important, it was a rebuff to the intellectuals, politicians and journalists who threw their weight behind Mr Rafsanjani, against whom they had vigorously campaigned, once the main reformist candidate failed to reach the run-off. A vote "in favour of the bad against the worse" is how these reformists justified their flip-flop. But many other voters saw this attitude as fickle and frivolous.

Muhammad Ghoochani, an influential reformist, regrets the "indifference" shown by many reformists to "alienated social layers", ie the poor. The newspaper he edits, *Shargh*, is a prime example. Its bright young staff lavished attention on big-spending, modernising candidates, all but ignoring Mr Ahmadinejad's modest, self-consciously egalitarian campaign. As mayor of Tehran for the past two years, he had won popularity by laying roads, doling out interest-free ("Islamic") loans and living austerely. "He has more integrity than other politicians," says an associate, "but he is an ideologue, and ideologues see the world simply."

A review of Mr Ahmadinejad's campaign messages gives an impression of confused populism. The mayor has declared war on Iran's *rentier* economy but it is hard to square his concern to yank down interest rates and his hostility to profitable private banks with his stated rejection of *dirigiste* economics. For all that, poor Iranians are receptive to complaints that Iran's oil-fuelled foreign-exchange revenues, which may exceed $46 billion in the year to March 2006, are going largely to a privileged minority.

Ominous parallels have been drawn with an earlier period of oil riches, high inflation and social rumbles: shortly before the revolution of 1979. In the past year, until March, Iran's imports soared by 26%. Rich “uptown” areas have become havens of western consumer goods that are unavailable to most. A parliamentary ally of Mr Ahmadinejad laments that one-third of Iranians in their 20s have no job. And the infrastructure cannot cope with baby boomers now coming of age. This summer some 1.4m young people are expected to sit state university entrance examinations. They are competing for a mere 200,000 places.

Nowhere are such inequalities more apparent than on the insalubrious peripheries of big towns. In Ahmaghieh, for instance, a new suburb of the north-western city of Tabriz, some 60,000 people, many of them rural migrants, eke out a precarious existence market-gardening, carpet-weaving and (the lucky few) working in local factories. Residents wryly observe that, as citizens of OPEC's second biggest oil exporter, they must do without electricity for two hours a day. A local doctor says that sanitary diseases “of the kind you don't see in rich areas” are rife in Ahmaghieh.

The same doctor is irritated that reformist electioneering focused on protecting democracy and social liberalisation, in dress and mores, that has been a feature of Mr Khatami's presidency. “Do you think that I, who must spend the weekend at work in the hope of receiving a patient or two, have time to worry about social freedoms?” he asks.

After Mr Ahmadinejad assumes power in August, will he take revenge on reformist intellectuals and party-going uptown girls? Not if you believe Mehdi Kalhor, the president-elect's cultural adviser, who beats a pluralist drum and insists that the new government will not interfere in people's private lives. But the new president's allies, especially hardliners in parliament, will press him to segregate the sexes in universities, crack down on immodest dress and adopt a strict version of Islam in interpreting culture.

The election result belied the view, especially widespread among Iran's critics in the Bush administration, that Iran's public discourse is essentially a fight between the people, who want freedom, and a repressive state. Nor are there signs that popular discontent is close to spilling into violence. In contrast with pre-revolutionary Iran, the Islamic Republic is a partial democracy, and people let off steam on polling day.

The election's real and undisputed victor is the unelected supreme leader, Ayatollah Ali Khamenei, who is no friend of reform. It was apparently his entourage that mobilised hardline support for Mr Ahmadinejad in the campaign's final days. The ayatollah has had the satisfaction of watching the reform movement being dealt a big blow, more or less democratically, while the wings of Mr Rafsanjani, a rival for prestige and influence, have been clipped. The supreme leader will count on Mr Ahmadinejad to be like him: a radical in rhetoric, a pragmatist in power.

Supported by parliament, the president-elect will try to redirect Iran's oil lucre to populist ends. In foreign affairs, he will play second fiddle to officials selected by Mr Khamenei. So expect the new president to sound tough on Iran's nuclear programme, which the European Union and the United States want abandoned lest it be used for bomb-making, but to enjoy little influence over it. Besides, Iran's policy, to develop nuclear technology while trying to avoid referral to the UN Security Council, was set long ago. As for Iran's bruised reformists, they look lonelier than ever. And as long as the price of oil stays high, popular discontent, such as it is, will probably remain well under the surface.

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Iraq

Reaching out to the insurgents

Jun 30th 2005 | BAGHDAD
From The Economist print edition

The Americans are groping towards a plan to embrace more Sunni Arabs

EPA

Sunnis ponder the cost of staying out

AMERICAN and Iraqi officials are working on two fronts to contain the country's insurgency, which is largely Sunni Arab. In Baghdad, members of parliament are close to a deal that would sharply bump up Sunni representation in the committee to draft a permanent constitution. And, behind the scenes, American soldiers have been negotiating with representatives of some insurgent groups, though what kind of deals are on offer remains murky.

The constitutional drafting committee, which at first included only two Sunni Arabs among its 55 members, is now expected to have 15 of them as full members, whose agreement must be won before any document can be approved. Virtually all Iraqi politicians, who pretty well ran the show under Saddam Hussein, now agree, at least in principle, that the Sunnis should have a big say in writing the constitution. Every senior American visiting Baghdad, along with America's new ambassador, Zalmay Khalilzad, has been urging the new government to “reach out” to all of the country's ethnic and religious groups and be “inclusive”. It remains questionable, however, whether the committee's new make-up, still not quite finalised as *The Economist* went to press, will provide the needed boost to finish a draft constitution by mid-August, as scheduled, or whether a six-month extension will be needed, as the current constitution allows.

In any event, the committee must work fast. Yet arguments over federalism, the role of Islam in state affairs, and de-Baathification (at what level should former officials of Mr Hussein's party be barred from office?) will be as hard as ever to resolve. Many Sunnis say that banning high-ranking Baathists from public life would disenfranchise many of their natural leaders. Most Sunnis also reject the Kurds' demands for autonomy as well as their claim to the disputed province of Kirkuk. And now, as part of a deal to embrace more Sunnis, it will probably be agreed that the committee must make its decisions by consensus—a tall order in a country where sectarian divisions have been sharpening.

Follow the Shia and Kurdish example

While the main Shia and Kurdish parties, despite some public posturing on the issues, have learned over years of exile politicking to accommodate each other, the Sunni Arabs have on the whole been less familiar with the new pluralism, tending to make maximalist demands and playing on the importance the other groups now place on keeping them inside a bigger political tent. And whereas the Shias and

Kurds have more cohesive and established parties voicing their claims, the Sunnis tend to be more fractious among themselves. One reason for the last-minute hiccup over the constitutional committee's make-up was an intra-Sunni row over Sunni regional representation. And it is still unclear whether parliament, dominated by Shias, will approve the Sunni list, especially if former Baathists are on it.

When it comes to the idea of direct talks with the insurgents, those two problems—over who should represent the Sunni Arabs, and the Shias' distaste for making deals with their former persecutors—look even more acute. Last week, Donald Rumsfeld, the American defence secretary, seemed to confirm reports that American officials in Iraq had met rebel commanders face to face. In fact, American officials have been meeting various self-proclaimed rebel interlocutors almost since the counterinsurgency began two years ago. But Mr Rumsfeld's breezy language ("I think there probably have been many more than that") did appear to indicate a new level of negotiations. Some prominent Sunnis such as Ayham al-Samarrai, an electricity minister after Mr Hussein's fall, have come forward with a political front to voice insurgent demands but have yet to be endorsed by any specific insurgent group.

Even if serious talks did begin, agreement would be hard. Sunni politicians consistently say that the rebels' most basic demand is a timetable for American withdrawal—the last thing that President Bush, this week sounding as tenacious as ever, would give. Even a short confidence-building truce would be hard to arrange. Dozens of different groups stage attacks, so it would be nigh-impossible to tell whether one particular insurgent group had ceased fire or not. Several spokesmen for the insurgents say they could prove their influence over the gunmen by arranging for all attacks in a particular town or province to stop for a while. Americans officials say that such a method has never been tested.

Meanwhile, the violence goes on, worsening politicians' tempers. Over 1,300 people, mostly Iraqi civilians, have been killed in the past two months. The Shias are disgusted by the apparently random nature of many of the attacks. The Sunnis are particularly angered by the recent round-ups of thousands of civilians in the capital, many of whom are held for weeks by Iraqi security forces and tortured before being let go with a warning not to support the insurgents. As Mr Rumsfeld says, the insurgency could last many years—even if a lot more Sunnis do gradually come on-side.

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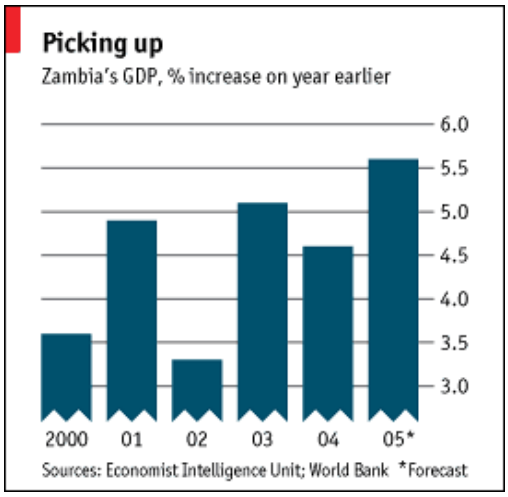
Zambia

Clambering back

Jun 30th 2005 | LUSAKA
From The Economist print edition

As leaders of the world's richest countries discuss aid to Africa, we look at two big recipients: Zambia, recently moving ahead; and Uganda, in danger of slipping back



ARRIVE by air, as foreign officials usually do, and one of the first sights on the road into Lusaka, the capital, is a huge sign affirming the government's zeal in the fight against corruption. Arrive by truck or car from Malawi, as humbler travellers may, and once your yellow-fever certificate (not necessary at other border crossings) has been checked and your visa-waiver declared in order (or not), then perhaps a surly official will eventually appear and deign to let you pass. No doubt a small tip will speed your passage. Welcome to Zambia, land of contrasts.

Levy Mwanawasa, who became president in 2001, succeeded a reformer, Frederick Chiluba, whose rule started well but degenerated into an orgy of plunder. In the eyes of many Zambians, the pattern is being repeated, albeit not on the same scale. Mr Mwanawasa has continued the privatisation programme and the opening up of the economy, and mounted a noisy campaign against corruption. But the prosecution of Mr Chiluba makes no progress. And in recent weeks the all-consuming news story has been of another non-prosecution, this one of a former senior official in the health ministry accused of embezzling millions of dollars intended for AIDS drugs. This official was mysteriously pardoned, with the president's approval, after the attorney-general had equally mysteriously dropped the state's case against him. Such was the fuss that a fortnight ago the government told the director of public prosecutions to reopen the prosecution.

Mr Mwanawasa was elected with just 29% of the vote and is probably no more popular now than he was in 2001. His cabinet, well stocked with cronies and relations, has only a couple of good ministers, it is said, and he shows no enthusiasm for the constitutional reform for which many Zambians currently clamour. Yet he receives high marks from “the donors”—the ambassadors and other foreign officials whose views may persuade the G8's leaders to open, or keep closed, their pocketbooks at Gleneagles next week.

These latter-day proconsuls have already granted Zambia some goodies. Debts have been forgiven ($3.9 billion under the IMF's heavily indebted poor countries' initiative, as well as IOUs to Paris club creditors). And America has chosen Zambia as one of 15 countries eligible for special emergency AIDS relief. If these actions are partly recognition that Zambia could never repay the debts it had built up in

the 1970s and 1980s, and suffered gravely from AIDS too (16.5% of adults were said to be HIV-positive in 2003), they are also rewards for belated economic reform, fiscal discipline and the still-to-be-won war on graft.

Some changes for the better are visible. This week, for example, a new copper-and-gold mine was formally opened at Kansanshi in the North Western province. It is just one of several new, newly reopened or newly planned mines in Zambia, not all producing copper, the country's traditional mineral, but uranium, gemstones and phosphates. Diversification and growth can also be seen in agriculture. No longer is maize the only crop worth speaking of. Now roses and vegetables are flown weekly to Amsterdam and London, the products of a horticulture industry employing 6,000 workers, whose exports are worth about $60m a year. Tobacco, too, is prospering, partly as a result of an exodus of white farmers from Zimbabwe to Zambia, partly because tobacco is now also grown by peasant farmers, especially in the country's east. They are cultivating cotton, soyabeans and cassava too, crops seldom seen there a decade ago.

Reuters

The donors still like Mwanawasa enough

For Ohene Owusu Nyanin, though, Zambia's great achievement is macroeconomic stability. As the World Bank's man in Zambia, he argues that development will not come without economic stability and a friendly attitude to investors. After the past six years of growth, which followed decades of stagnation or contraction, and a new investment directive from the government, he is full of hope.

Plenty of others share this optimism. Christa Kalulu, for instance, came back recently from eight years in Zimbabwe to run a marketing company. She finds Zambia a changed place, full of opportunities for entrepreneurs. And the opportunities are indeed plentiful, though so are the obstacles. Zambia could, for instance, produce huge quantities of food: it has vast areas of unexploited land and, unusually in Africa, lots of water. With irrigation, it should be easy to produce two crops a year of maize in some places. But few peasants have irrigated land, which is the main reason many Zambians will go hungry this year: the annual rains all fell at once, mostly before Christmas, leading to a poor harvest. The UN's World Food Programme said this week that it expects soon to have to feed 1.2m Zambians (out of a population of 10.5m), though without more money it will have enough stocks for only 500,000.

Why is the land unexploited? The main reason is bureaucracy. Permits must be won from several slow-moving ministries, and endless restrictions stand in the way of clearing the bush for farming, especially if the land involved is tribal. Tourism, too, is bedevilled by bureaucracy, though Zambia has some of the best game lodges in Africa and, in the Victoria Falls, a natural spectacle without equal in Africa.

The government, says Gilbert Temba, a successful businessman, has been too slow to relinquish its hold on the economy. After years of government intervention in everything, financed by ever-more-inefficiently-run copper mines, export revenues are only just returning to where they were in the early 1970s, before the copper price collapsed and the mines filled with water. The country's new exports have only recently reached the point where they make up for the shortfall from copper sales. Zambia, says Mr Temba, “is still like a patient coming out of intensive care.”

For bold investors, though, Zambia offers handsome rewards. Vedanta Resources, an Indian group that bought 51% of Konkola Copper Mines less than a year ago, is reckoned to have recouped more than its $25m down-payment in just three months. For some Zambians the rewards seem too handsome. Some complain about the new mine-owners' use of short-contract workers, partly to get round Zambia's

expensive-to-lay-off-labour laws. This may well have contributed to a series of fatal accidents recently. Others, including ex-President Kenneth Kaunda, have asked why the terms of the Vedanta and other mining deals have not been made public. Are the new mines paying any severance or export taxes on their sales? And if, as the governor of the Bank of Zambia has said, the country's estimated export earnings for the second half of 2004 were $870m, why has the kwacha not rallied? Did the dollars ever reach Zambia?

None of this, however, seems to be of great concern to the proconsuls in Lusaka. They know that half a century ago the income per person of Zambia and South Korea was roughly the same, but now South Korea's is 32 times greater. They know that progress is modest, that roughly 70% of Zambians live on less than $1 a day and that AIDS has halved life expectancy to 33 years. They know, too, that next year's presidential election already promises to be a scramble among politicians seeking “eating posts”. Soberly, the World Bank's Mr Nyanin says that sustained 8% annual growth is needed to make a dent in poverty (it was 4.6% last year).

But Zambia is likeable, and peaceable. The proconsuls are there for just a few years. A G8 meeting like this one gives them an unusual chance to leave a small legacy, which may, perhaps, reach at least some of the long-suffering people of a long-misgoverned country.

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MIDDLE EAST AND AFRICA
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Uganda

Down, down, up, and maybe down

Jun 30th 2005 | KAMPALA
From The Economist print edition

One of Africa's rare aid successes is in danger of going backwards again

NOWADAYS, the elite and the beautiful prowl Kampala, Uganda's capital, at all hours of the night, searching for thrills in their favourite haunts. Their fears of violence are minimal—as is not the case in many other African capitals. Most of the country enjoys similar security, except a slice of the north that is terrorised by the rebels of the Lord's Resistance Army.

All in all, that is quite a turnaround. The young are barely aware that there were any bad old days of bullet-holed buildings, massacres and marauding soldiers, rivers full of swollen corpses, and predatory gangs on the streets. Yet barely a generation ago Uganda suffered under two of the worst regimes that Africa had ever seen, those of the psychopathic Idi Amin (from 1971 to 1979) and of the venally incompetent Milton Obote (from 1962 until General Amin's coup, and again from 1980 to 1985). Together, this pair managed to turn Uganda from being East Africa's most promising economy at the time of independence in 1962 into, as the World Bank puts it, “a semi-failed state with a subsistence economy”. The two leaders, General Amin especially, presided over the killing of up to 600,000 fellow citizens; tens of thousands more were expelled or fled.

So much of the credit for the change since then must go to Yoweri Museveni, who has been president since 1986. But progress under his rule has relied heavily on western donors' largesse. Indeed, in the 1990s, Mr Museveni became a pin-up of international aid givers, who cited Uganda as an example of how aid really could transform a country. Now, however, doubts are growing as to whether Uganda really has turned a corner or whether it is not slipping back into a familiar pattern of big-man politics and corruption.

In the 1990s, Mr Museveni certainly used aid to enact reforms that helped rebuild Uganda's devastated economy. Since 1986, says the country's finance ministry, foreign donors have poured in more than $11 billion. As a result, Uganda has witnessed notable economic growth, a reduction in poverty (56% lived under the poverty line in 1993 compared with 38% in 2003), more political freedom, and one of Africa's most effective campaigns against HIV/AIDS. Donors' enthusiasm was such that overseas aid now makes up about 50% of Uganda's annual budget.

Without it, says the finance ministry's Keith Muhakanizi, the economy would never have done as well. Fewer if any roads would have been rebuilt. Free primary-school education would not be available, as it now is, to more than 7m children. Aid has also strengthened institutions such as parliament, has given a fillip to civil society and has helped facilitate elections. It has brought political and economic stability, says Zie Gariyo, who runs the Uganda Debt Network, which campaigns for the forgiveness of foreign debt.

Yet that stability is at risk because of Mr Museveni's desire to stay in power. Once viewed by most donors as a progressive leader, he is using parliament to amend his own constitution of 1995 that limited presidents to two terms in office; his second expires in less than a year. This week, malleable MPs voted for a constitutional amendment to let him seek re-election.

So donors are feeling queasy. Ambassadors are warning Mr Museveni and his governing circle of the dangers of putting personal interests above national ones. To mollify the donors, Mr Museveni will hold a referendum at the end of this month on whether to allow a return to multi-party politics. But many fear that allowing a bit of pluralism may be just a trade-off for letting Mr Museveni become president for life. Earlier this summer, Britain symbolically cut £5m ($9m) of aid in protest against Mr Museveni's ambition to stay on; Ireland may follow suit.

Getting dirtier again

Donors are particularly worried about corruption. No one knows for sure how much money is lost each year, but Mr Gariyo calculates that between $100m and $175m goes into the wrong pockets. Mr Museveni has kept on two ministers, Sam Kutesa and Jim Muhwezi, whom parliament censured in 1999 for alleged conflicts of interest. A leaked report for the World Bank says that “Corruption has become a mechanism for regime maintenance.”

Certainly it is all-pervasive. District officials do dodgy deals and skim off building projects. After crashing his car, this correspondent had to pay $11 to a policeman to expedite the issuing of an accident report. The Bank's leaked report says that the economy, though suffering from corruption, remains fairly strong because donors indirectly and unintentionally underwrite it. The authors say that the large injections of cash to support the budget let the government balance its books while diverting large sums to suit its own purposes. The Bank, say the authors, should “rethink” its budget-support policy.

This African success story is turning sour, argues Johnny Carson, a former American ambassador to Uganda. But it is not easy for donors, with projects already under way, to pull out. And despite his growing defects, Mr Museveni is still a lot better than those who preceded him.

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AIDS in South-East Asia

There's good news and bad news

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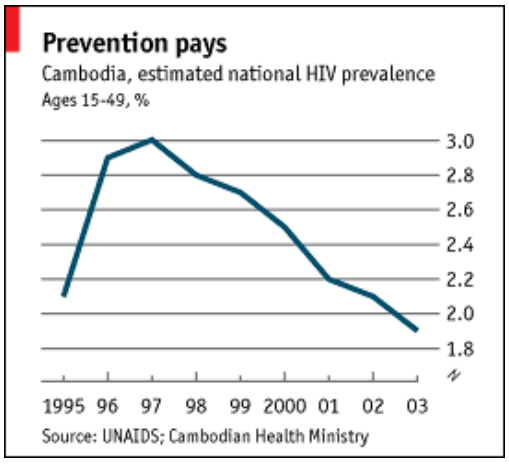
Good prevention work has tamed the AIDS epidemic in some countries, yet it is getting much worse in others



"BOOM!" That, in a word, is how one epidemiologist describes the spread of AIDS in Vietnam. Infection rates may be higher in Africa, but AIDS is growing faster in South-East Asia than in any other part of the world. What is more, in populous countries like Vietnam and Indonesia, even small increases in the proportion infected means millions of new cases.

Until recently, South-East Asia was considered a beacon of hope in the fight against AIDS. Thailand and Cambodia, where the epidemic took hold in the 1990s, have managed to reduce the incidence of the disease through vigorous and well-funded public-health campaigns. In Cambodia, the proportion of adults infected by HIV, the virus that causes AIDS, fell from 3% in 1997 to a still high 1.9% in 2003. In Thailand, the number of new cases has fallen each year for the past decade.

Even as Thailand and Cambodia get to grips with AIDS, however, the disease has been taking hold in other countries in the region. Myanmar and Papua New Guinea, with estimated infection rates of 1.2% and 1.7% respectively, face what the United Nations AIDS programme calls generalised epidemics. Several others, including Indonesia and Vietnam, are witnessing sky-rocketing infection rates among drug users, from whom the disease might soon start spreading to the wider population. In East Asia as a whole, the number of people living with HIV rose by 24% in 2004 alone, according to a UNAIDS report, to be released on July 1st at a regional AIDS conference in Kobe, Japan.

AIDS is spreading so quickly because those most in danger are still taking risks. A recent survey of injecting drug users in three Indonesian cities found that 88% had used unsterilised needles in the previous week. No wonder, then, that half of all drug users in Jakarta and Bali have HIV. By the same token, repeated surveys find that relatively few prostitutes use condoms in Indonesia. Infection rates among them have risen as high as 17% in some parts of the country. In Ho Chi Minh City, in Vietnam, over a third of prostitutes inject drugs, and half of those are HIV positive.

People in the region remain worryingly ignorant about AIDS. Last year, the World Health Organisation reported that prevention programmes had reached only 19% of prostitutes in Asia and the Pacific, 5% of drug users and 1% of gay men. People in risky situations use condoms only 8% of the time, it reckoned. Only 1% of Indonesian women have ever been tested for HIV.

Most governments are responding pragmatically. After years in which AIDS was denounced as a social evil, Vietnam's communist rulers have begun to attend AIDS-awareness functions and promote AIDS-prevention schemes. In neighbouring Laos, soldiers are taught about AIDS as part of their training. Indonesia is running needle exchanges and handing out methadone to heroin users, although only at a handful of clinics.

But when Malaysian authorities announced that they would start similar programmes earlier this year, religious leaders reacted with horror. The government of the state of Perak said it would distribute condoms only to married men. In 2003, the Philippines' Catholic bishops succeeded in blocking a proposal to spend government money on condom distribution. The military regime in Myanmar has not yet allowed any prevention campaigns on radio or television. Even Thailand, which mounted a much-imitated “100% condom” campaign in the 1990s, is uncomfortable with any policies that imply forbearance in the face of drug use.

Even when governments are willing to tackle the problem, funds are often in short supply. UNAIDS reckons that AIDS prevention and treatment programmes in the region will get less than half the money they need this year, and less than a third of what they require in 2007 (see article). The Philippines has slashed its AIDS budget by more than three-quarters since the Asian financial crisis in 1997.

One of the hardest hit places in the region is New Guinea. Both the Indonesian portion of the island in the west, and the independent country of Papua New Guinea in the east have infection rates of over 1%. This seems to be linked to Papuans' relative promiscuity: the majority of Papuan men report multiple sexual partners. Yet New Guinea's awkward geography, poor infrastructure and myriad ethnic divisions make it difficult to mount an effective prevention campaign.

Myanmar presents even more daunting challenges. There too, AIDS has already spread beyond the most susceptible groups to the general public. In the city of Hpa-an, for example, 7.5% of pregnant women test positive for HIV. High rates of drug abuse (Myanmar is the world's second biggest producer of heroin) help spread the disease. So does the civil war that rages in much of the country, displacing many people and making others difficult to reach. There is no independent media, so a frank discussion of the country's problems is impossible. The junta is suspicious of NGOs and activists, while donors and aid agencies are leery of it. The generals are not good administrators at the best of times, and the health system is a shambles. Indeed, as bad as things sound, no one really knows how bad: the government conducted only 28,000 HIV tests last year, in a country of more than 50m.

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Kirgizstan

After the tulips

Jun 30th 2005 | BISHKEK
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Fears of renewed autocracy

THREE months ago, Kirgizstan's president, Askar Akaev, was flushed out of office when more than 5,000 demonstrators stormed the seat of government in the capital, Bishkek, bringing his 15 years of rule to an abrupt end. Mr Akaev's hasty departure into exile took the opposition completely by surprise. Unlike in Georgia or Ukraine, there was no obvious opposition leader waiting to step in, and no one had a well thought-out plan for what to do next.

Since then, a concerted effort has been made by government officials, judges, parliamentarians, and representatives of civil society, all members of a 114-member constitutional council, to devise amendments curbing the extensive powers of the president. Kirgizstan, once known as the “island of democracy”, had become increasingly authoritarian and corrupt from the mid-1990s. But the road towards finding a better and corruption-free form of government has proved rocky.

While presidential elections are to be held later this month, it will take several more months before the new amendments can be put to a vote—probably in parliament rather than at a referendum. Whether the new president, who is widely expected to be Kurmanbek Bakiev, the acting one, will still be as enthusiastic about the project once he is permanently installed, remains to be seen. He was once prime minister under the now departed Mr Akaev and only latterly joined the opposition.

Furthermore, many parliamentarians, voted into office in two flawed rounds of elections in February and March that benefited Mr Akaev and triggered the uprising, fear that Mr Bakiev might then disband them. Some of them are already talking about storming the Kirgiz White House again.

Not only the future is being debated: the past is also under review. Under Mr Akaev's long rule, corruption became endemic. International lawyers have been hired to track down foreign properties he owned. Arrest warrants have been issued for his son-in-law and his last prime minister. Meanwhile a state commission headed by the acting vice-premier, Daniyar Usenov, has investigated dozens of enterprises in Kirgizstan allegedly owned by “the family” and its network of friends, many of which paid little or no tax.

Breaking the cycle of corruption, the stated goal of the interim leadership, will be key to the success of the revolution. But Mr Bakiev is already being criticised for the lack of new faces among his political appointees, including on the central election commission. He has formed a union with his strongest rival, Felix Kulov, a former senior government official and political prisoner, who will be named prime minister if Mr Bakiev becomes president. This marriage of convenience—Mr Bakiev is from the south, Mr Kulov from the north—is expected to unite the country and ensure victory for both in a field of six candidates. Mr Kulov would presumably take on a greater role under the new constitution. Whether the union will be durable, though, is another matter.

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Afghanistan

Getting the vote out

Jun 30th 2005 | KABUL
From The Economist print edition

Parliamentary elections are still on track

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AP

That's the way to do it

CHILDREN dressed in national costume were the stars last weekend at a televised lottery in Kabul's Intercontinental Hotel ballroom that was designed to demonstrate the transparency of Afghanistan's elections scheduled for September 18th. They spent two days picking 6,000 names from cardboard boxes to fix the order in which candidates would appear on ballot papers for the 249-seat *Wolesi Jirga* (lower house of parliament) and for 34 provincial councils. A computerised random selection would have taken only a few minutes but, said Peter Erben, who runs a joint United Nations-Afghan government election secretariat, “we wanted to demonstrate what it means to have free and open elections”.

Symbolism and some semblance of order are seen as important in a country that has no tradition of democratic government and whose emergence from decades of war and unrest has been upset in recent weeks by a significant resurgence of violence. Security forces have been stepping up their attacks and more than 200 militants have been reported killed along with more than 70 American troops and Afghan police, including 17 American personnel who died in a helicopter crash on June 29th.

Some western officials suggest that action by security forces, plus an increasing number of Taliban activists surrendering under an amnesty scheme, could gradually reduce the militants' effectiveness. But Afghan leaders, both inside and outside the government of President Hamid Karzai, blame Pakistan for encouraging the unrest in a bid to upset the elections and destabilise the country's recovery in the longer term. In two telephone calls with President Pervez Musharraf of Pakistan on June 21st and 23rd, Mr Karzai requested increased Pakistani efforts to stop Taliban militants crossing into Afghanistan.

Meanwhile the country's many local armed commanders are expected to try to undermine the election in other ways, using cash or coercion to garner votes for themselves or their candidates. “People are so poor, so hungry, that they will vote for people who pay them,” says Fatima Gailani, chairman of Afghan Red Crescent Society. Election authorities have threatened to ban 255 candidates with links to warlords unless they disarm. The number has been reduced in the past week and a final list is to be published on July 2nd.

So far, the increase in violence has not significantly hindered the election preparations, although two officials have been killed and a voter registration office has been attacked. Nearly 11m voters were registered for presidential polls last October, when Mr Karzai was elected, and officials estimate that this could increase by a further 2m during the current registration exercise. Mr Erben says that the logistics of working in remote mountain areas, often accessible only by mules, and the relatively short time left till September 18th, both pose more immediate problems at this stage than the violence.

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China

Beware! Beware!

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China is restoring its history, with a heavy hand

All who heard should see them there

FOR CENTURIES the name has fuelled western fantasy about the exotic Orient. Some scholars believe Marco Polo may never even have made it there, as he claimed he did in the 13th century soon after the city was founded. Samuel Taylor Coleridge, an English poet, certainly never had when he wrote, half a millennium later, of Kublai Khan's “stately pleasure dome”. Until the late 1990s, China's Communist government fuelled the mystery by declaring the ruins of Xanadu (as Coleridge called it; the real name is Shangdu) to be in a restricted area which foreigners required special permits to visit. Very few of them did.

But if the local authorities have their way, Xanadu is to be transformed. The trickle of travellers who have ventured to the site about 300km (190 miles) north of Beijing in the grasslands of Inner Mongolia will turn into a gush (a tenfold increase by 2008 compared with 2003). A replica Xanadu (or part of it) will rise from the pasture nearby, along with an army in statuary of Mongol warriors. In Xanadu itself, golf buggies will transport visitors around the 400-hectare (990-acre) site, enclosed by crumbled grass-covered walls. Fortunately, officials there say that a partial reconstruction of the walls and the remains of Kublai Khan's palace, launched early this decade, has been shelved.

In theory, as the summer capital of Kublai Khan, a grandson of Genghis Khan and the founder of what was then the biggest ever unified Chinese state, Xanadu should long have been a special attraction in China. The history of Xanadu is closely linked with that of Beijing, which Kublai made his primary capital, the first emperor to do so. Yet Xanadu was elevated to a state-level protected relic only in 1988. Few Chinese are familiar with the city's name. Like people everywhere, even fewer know where it is.

Part of the problem (from the official viewpoint) has been that there is little of substance to see. The city was destroyed in a 14th century uprising and its stonework has mostly vanished. To a foreign visitor, the occasional glazed tile found lying in the grass might evoke images of the city described by Polo with its houses covered with gold and decorated with pictures of birds, animals or flowers. A stream near the building site of a new ticket office and museum could, with a suitable stretch of the imagination, be Coleridge's Alph, “the sacred river”. But as reconstructed monuments across China attest, the preference of many Chinese tourists is to see what once was, even if only in replica, rather than simply to imagine it. Whole sections of the Great Wall of China, for instance, have been completely rebuilt.

The rapid growth in recent years of a car-owning middle class in Beijing is prompting the governments

of almost every region within a day's driving distance to re-examine their tourism assets. The authorities in Xilin Gol, the prefecture to which Xanadu belongs, see a potential windfall: the remains of Xanadu (plus a new museum) and the area's scenic grasslands, which form one of the nearest stretches of open countryside to Beijing unscarred by intensive agriculture. Crucially, for the replica-loving crowd, a Beijing-based film company run by an ethnic Mongol actor has signed a letter of intent to spend some $60m in building the new Xanadu, as well as a riding arena a few kilometres away. It will be called Xanadu Film and Television City.

Xanadu is not alone in receiving such attention. The collapse of communism in neighbouring Mongolia and the growth there of Mongolian nationalism have spurred an attempt by the Chinese government to keep its own (and more numerous) Mongolians happy by presenting China as a worthy custodian of their culture. Tens of millions of dollars are being spent elsewhere in Inner Mongolia on revamping sites linked with Genghis Khan, the symbol of Mongol nationalism. But it is probably at least as much a desire to cash in on the thirst of China's newly rich for exotic holiday destinations that will finally put Xanadu on the map.

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Innovation and intellectual property

A bad week for pirates

Jun 30th 2005
From The Economist print edition

Corbis

But entertainment companies should not take too much comfort from their victory over online innovators in America's Supreme Court

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THE entertainment industry and technology companies have been warring for years over the dazzling ability of computers and the internet to copy and transmit music and movies. Consumers have benefited from the tech sector's innovations, but they are bad news for media firms, which have been unable to protect their digital wares. Their only weapon has been suits against individual users—a cumbersome business which has involved them in over 12,000 cases.

A crucial battle ended this week with a ruling by America's Supreme Court in favour of copyright holders and against two companies that distribute peer-to-peer (P2P) software, which lets users share files online with others. Tens of millions of internet users regularly use P2P to swap music and, to a lesser extent, films. The court's decision, though ostensibly a victory for content providers, is nevertheless unlikely to stamp out file sharing—much of which will continue from outside America—or stop the technological innovation that is threatening the current business models of media firms.

The court was asked to decide whether two firms, Grokster and StreamCast, were liable for copyright infringement by their customers. Most of the content exchanged using P2P software violates the copyright of music and movie firms. Two lower courts had said that the firms were not liable, citing a 1984 ruling in favour of Sony's Betamax video recorder. This held that a technology firm is immune from liability so long as the device concerned is “capable of substantial noninfringing uses”—ie, that the technology can be used for legal purposes as well as illegal ones.

The Betamax decision has become holy writ in Silicon Valley—a tech-friendly standard supporting innovations that, although possibly detrimental to copyright holders, let new ideas flourish. A plethora of products, from Apple's iPod to TiVo, which lets people record and manipulate TV shows, are the progeny of the ruling.

Tipping Grokster the black spot

The court was asked to reinterpret the 1984 decision in light of the internet. It did not. Instead the justices ruled that the case raised a far narrower issue: whether Grokster and StreamCast induced users to violate copyrights and chose not to take the simple steps available to prevent it. Such behaviour would make the firms clearly liable for copyright infringement and end their immunity, even under the Betamax standard. The court reasoned that there were sufficient grounds to believe that inducement occurred, and sent the case back to lower courts for trial.

This has prompted much glum speculation by tech firms about who will be the next firm sued by the entertainment industry as a test case to clarify exactly how this week's decision applies to technologies that enable both legal and illegal use. The court seems split, having issued two rival opinions, each signed by three justices, that differ over what constitutes “substantial” noninfringement. Meanwhile, tech firms await a verdict from an Australian court in an infringement case against another P2P firm, Kazaa. They also feel stung by a second internet-related decision handed down by the Supreme Court on June 27th, ruling that cable firms are not required to share their broadband lines with other operators. This is bad news for independent internet service providers.

Although the Grokster decision will probably not squelch innovation as much as many tech firms fear, it should certainly make IT and electronics firms more cautious about how they market their products—and quite right, too. Firms that use P2P technology, such as Skype, which enables users to make free voice calls via the internet, had feared that the ruling might jeopardise the technology itself. But the Supreme Court's narrow ruling makes this unlikely—indeed, the justices noted the technology's widespread legitimate use.

Yet their decision will surely embolden the entertainment industry to pursue in court any firms that they can claim knowingly allow infringement. This could kill off some small innovative start-ups. On the other hand, the ruling could also provide legal cover for tech firms with the wit to plaster their products with warnings not to violate the law.

But judged from a long-term perspective, this week's victory for copyright holders seems likely to prove a Pyrrhic one. The internet and file sharing are disruptive technologies that give consumers vastly more ability to use all sorts of media content, copyrighted or not. Surely entertainment firms must devise ways to use this technology to sell their wares that will also allow copyright to be protected?

So long as technology continues to evolve in ways that enable legitimate content sharing, piracy will also probably continue to some degree. Happily, in this case the piracy seems to have prompted content firms to compete by offering better fee-based services, such as Apple's iTunes music store. The challenge for content providers is to use new technology to create value for customers, and to make those who use content illegally feel bad about it. The music industry has belatedly started to learn this. The movie business is also slowly waking up. It would be a great pity if this week's ruling were to lead them back to their old short-sighted ways.

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French bosses

Looking for love

Jun 30th 2005 | PARIS
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Who can restore the reputation of business in France?

WHEN Ernest-Antoine Seillière took charge of France's confederation of employers in 1997, the bosses' club was stuffy, marginal and unloved. The energetic Mr Seillière modernised the association, renamed it Mouvement des Entreprises de France (Medef), and grabbed a pivotal place on the political stage. Yet as he is about to hand over to his successor on July 5th, business is less loved than ever.

All three candidates up for election to Mr Seillière's job say that it is their top priority to improve the public's opinion of business. Laurence Parisot, boss of Ifop, an opinion polling firm, says that she will try "to reconcile France with its entrepreneurs". Hugues-Arnaud Mayer, boss of Abeil, a maker of duvets, wants to make the French love companies. Yvon Jacob, chairman of Legris Industries, a diversified industrial group, intends "to do everything" to end the "miscommunication" between business and the public.

With its farming tradition France has always been distrustful of trade and commerce, says Ms Parisot. The bad image of business is cultivated at school where children are taught to see firms as a place of conflict. A negative attitude towards business is also prevalent among French politicians, 80% of whom, says Ms Parisot, come from the public sector and therefore have a tendency to blame business for all the country's problems.

In the past few years the public perception of business has only got worse. The troubles of Vivendi Universal, a once high-flying media and telecoms group, and other corporate scandals did their bit. So did Mr Seillière. "It is very unfair, but Mr Seillière is one of the most unpopular people in France," says Mr Mayer. He is rich, aristocratic and a product of the elitist National School of Administration—in short, a perfect target for anti-capitalists.

Medef's relationship with unions and the government has often been confrontational. Eight years ago, Mr Seillière's predecessor had lost the fight against the socialist government's decision to trim the working week from 39 hours to 35 with no loss of pay. Mr Seillière went on the attack. In October 1999 he called upon some 30,000 employers to demonstrate in Paris against the 35-hour week. Then Medef withdrew from joint management with the unions of France's social-security funds, a pillar of the cushy welfare state. Later Medef criticised the centre-right government of Jean-Pierre Raffarin for the "stupidity" of his economic policies. In turn, Mr Raffarin criticised Mr Seillière for his failure to give business a more positive image in France. At the end of last year relations between the two men improved somewhat when the government promised to relax laws on the 35-hour week.

Building a bridge between business and the public will be tough. One reason why France rejected Europe's constitution—costing Mr Raffarin his job—was fear of a more business-friendly Europe that could threaten the country's social benefits. Ms Parisot says she will first focus on the education system to improve her country's "bad economic culture". Mr Jacob plans working groups with representatives from Medef, teachers, unions and professional federations to improve relations between business and the French.

Ms Parisot also wants reform of France's rigid labour laws, which she says are the main reason for persistently high unemployment. Small firms have become afraid to hire. Mr Jacob wants reform of the social-security system and of how wealth and income are taxed. Mr Mayer intends to focus on promoting innovation. "We spend 2.2% of GDP on research and development compared with 1.7% of GDP in Britain, but British innovation is far more successful because it is closer to the needs of the market," he says.

After an endorsement by Mr Seillière and the Medef board, the association's 540 voters are now

expected to elect Ms Parisot as their boss. As boss of one of France's leading pollsters, she is an expert in gauging public opinion. But she may need all of her communication skills, and more, to make business popular in France.

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What a lot of wheatgrass

Jun 30th 2005 | SAN FRANCISCO
From The Economist print edition

Psst, there is news about Google, but don't tell

Get article background

IT IS hard to know whether to be impressed, suspicious or amused. This week shares in Google, the world's most popular search engine, rose above $300 each, having defied most predictions by more than tripling in the ten months since the firm made its stockmarket debut at $85 a share. Now valued at more than $80 billion, Google has left in the dust the other three internet *Wunderkinder*—Yahoo!, eBay and Amazon—and even passed media stalwarts such as Time Warner. How does Google do it?

At least in part by shrewdly manufacturing a winning mystique. No outsider today can prove definitively that Google is not an office park full of geniuses who could at any moment announce, simultaneously, world peace and a cure for the common cold. That is because no outsider today can say anything definitive about Google at all. This is intentional. Google makes itself totally opaque by camouflaging itself with lots of what journalists call “colour”.

Thus, at a recent “factory tour”, the press learned that Google's engineers, in an average month, consume 2,300 lbs (1,043 kg) of chicken, 1,600 lbs of coffee beans, 500 lbs of pasta, and 112 lbs of wheatgrass. They also heard about the sock collections of certain executives. At an event for equity analysts in February, Google did roll out the “CFO”, but he was the chief food officer (ie, chef), Charlie Ayers, who talked about his grilled pork tenderloin. The chief financial officer was there somewhere, but did not actually give a presentation.

Add to this a (slightly more relevant) steady drip of product announcements—typically through the grapevine and still in beta (ie, the test stage). This week, it was “Google Earth”, a bit of software that can be downloaded for free and that allows users to fly around a three-dimensional globe through well-rendered valleys and streets. A day earlier, Google hinted at a new media player for internet browsers that will allow users to search certain types of video. The week before, Google confirmed that it plans an online payment service. And so forth.

Combine such evidence of frenzied activity with mysterious secretiveness, and the imagination is liberated. A Google web browser? A Google operating system? All the world's information? World

domination? Buy, clearly.

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About sponsorship

TV for gays

The agony and the ecstasy

Jun 30th 2005
From The Economist print edition

Catering to a well-heeled minority upsets some people

AMERICA has long had a weather channel, a golf channel, a court channel, countless religious channels and a country-music channel, but no advertiser-funded gay cable channel. On June 30th Viacom, a cable operator, stepped in to fill the gap when it launched LOGO, a digital channel for the gay market. Its array of films, reality shows, music and documentaries will initially reach 10m households, with advertising coming from the likes of Motorola, Subaru, Miller Lite and Tylenol.

LOGO is hardly America's first gay TV. Gay hits on mainstream channels include “Will & Grace” (on NBC), “The L Word” (Showtime) and “Queer Eye for the Straight Guy” (Bravo). And there are two user-pays gay channels already—Q Television, launched last year and available to viewers for $8 per month, and here!, a video-on-demand service that says its take-up rate is growing fast. But as America's first basic-cable gay channel and with the backing of MTV networks, LOGO seems likely to become the biggest.

LOGO's launch was delayed for four months in order to secure better distribution. Now, business prospects look good. Estimates vary, but gays may comprise around 7% of America's population. With fewer children and both partners often working, gay couples often have more disposable income than straight ones. So overall spending power for gays as a group is “nipping at the heels of blacks and Hispanics”, claims Justin Nelson of the National Gay & Lesbian Chamber of Commerce, which itself is launching a new business magazine for gays next year. Bob Witeck, a media consultant, points out that gays have exhibited a strong loyalty to those advertisers who brush aside stigmas and aim their messages at them.

Such strategies risk the wrath of religious conservatives, however. Southern Baptists have disapproved of Disney since 1997, when the firm decided to extend health care and other benefits to the partners of its gay employees (the Baptist hierarchy only called off an eight-year boycott last week). PBS, America's public broadcasting station, has also run into trouble: earlier this year an episode of “Buster the Bunny” was scrapped after the secretary of education complained about its featuring of lesbian couples in Vermont. (PBS is currently locked in a battle for funding on Capitol Hill; poor “Buster”, which is aimed at children, looks likely to lose out.)

Viacom seems unlikely to be browbeaten by the religious conservatives: after all, it already operates several channels, such as MTV, a music and lifestyle channel, that offend groups such as the Parents Television Council. But the American Family Association, another lobby group, has said that it “will monitor the new LOGO network for mainstream advertisers”, lest their money “advance the homosexual agenda”. Its website prominently features its criticism of Kraft, a food company, for sponsoring next year's Gay Games (a sporting contest). The Family Research Council, another Christian group, is using LOGO's launch to push for greater choice for consumers in how cable channels are packaged together. Cathy Rasenberger, a media consultant who works for Q Television, says that LOGO will probably end up with watered-down or “gay-lite” programming to avert a backlash from basic cable subscribers who are sensitive to the subject matter.

There are no such inhibitions in Canada, where this week the House of Commons voted to legalise gay marriage. Last year Canada's gay channel split between an adult service and a general-programming channel. The adult channel, “Hard on PrideVision”, calls its shows “Hard on Monday”, “Hard on Tuesday” and so forth. Some 20,000 Canadians pay C$8 ($6.50) per month to watch. OUTtv runs milder stuff, and expects to beat such numbers easily.

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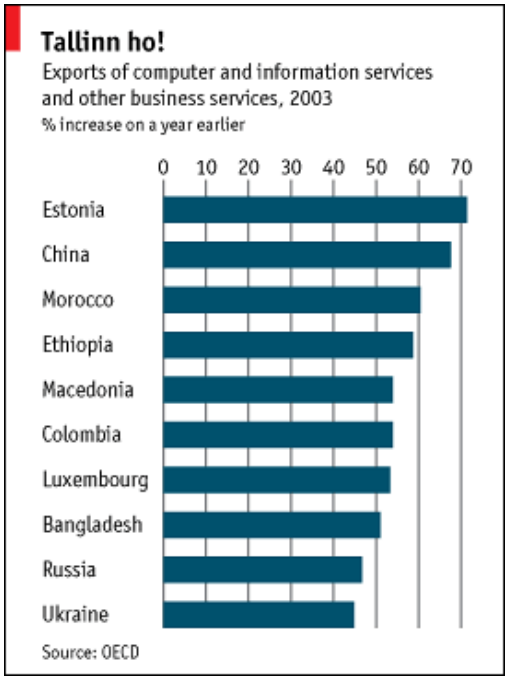
Outsourcing

Getting the measure of it

Jun 30th 2005
From The Economist print edition

Ignorance and the fear of offshoring



"THERE is little hard evidence of the extent of international outsourcing and offshoring," said a recent report from the OECD, "despite widespread media attention." That attention has tended to portray outsourcing—the contracting of once-core business functions to an outside supplier—and, in particular, its overseas component, offshoring, as a threat either to millions of jobs in Europe and America or to the security of sensitive data handed over to flaky foreigners by western banks.

On June 23rd the *Sun*, a British tabloid, said that it had bought the bank-account details of 1,000 Britons from an intermediary in Delhi who worked for an Indian outsourcing firm. Two days later the story appeared in the *Washington Post*, headlined "Outsourcing in India in Crisis over Scam".

No one knows the exact size or shape of offshoring. There is no doubt that firms today use outside suppliers (some of them overseas) to do many of the things they once did themselves. These range from running call centres supplying customer services to payroll processing, software engineering and even research and development. Last month the McKinsey Global Institute, the consulting firm's internal think tank, published a report on the subject. Called "The Emerging Global Labour Market", it began by saying, "So far, the debate about offshoring has been fuelled by anecdote rather than fact," and then set about gathering hard data.

Extrapolating from a study of eight industrial sectors, the institute calculated that in 2003 there were 1.5m service jobs outsourced abroad from developed countries. By 2008, it reckons that number will have risen to 4.1m. To set that in context, it points out that "an average of 4.6m Americans started work with a new employer every month" in the year to March 2005.

The OECD confirms that "even the largest projections of 'jobs lost to offshoring' are relatively small in

comparison to general job turnover." Moreover, although India is undoubtedly the biggest recipient of offshoring jobs, developed countries too rank high on the lists. The OECD looked at the value of exports of business services as a proxy for offshoring in 1995-2002, and found that growth was greatest in India. But among the ten fastest-growing exporters over the period were Estonia, Ireland and Sweden, all of them now member states of the EU. "European firms," says the OECD, "tend to offshore within Europe"—with the notable exception of British ones.

Limits to the growth of offshoring are already appearing. Technology, which made it possible to shift such work abroad in the first place, is now helping to bring it back. Banks are starting to use automated call centres, for instance. In Britain, Lloyds/TSB, Halifax and Egg are all using a system provided by Adeptra. It lets them call customers and make anti-fraud checks on credit-card transactions, say, without the use of a human voice. Such operations are firmly based in a bank's home country.

Then again, says the McKinsey Global Institute, if current demand continues, the supply of suitable labour in the popular cities of Prague and Hyderabad will run short by 2006 and 2008 respectively. The demand for engineers from Britain and America alone, it claims, will use up the suitable supply in all of China, India and the Philippines by 2011. The institute advises firms to choose their locations carefully. It is hard to switch later "because of sunk costs in physical and human capital".

India's popularity with British and American firms, the biggest outsourcers by far, has been helped by the fact that English is widely spoken there. China's lack of language skills has been a constraint on its ability to compete in this market. But Jia-Bin Duh, president of Cisco Systems' Chinese operations, said recently that the Californian supplier of routers for the internet currently spends 25% of its global outsourcing budget in China, and that this will rise to 40% by the end of 2006.

Outsourcing's popularity derives largely from the huge cost savings it can bring and the value it can create. A study published this week by LogicaCMG, an Anglo-Dutch outsourcing firm, says that the shares of British quoted firms, after announcing outsourcing deals, outperformed comparable firms without such a deal by an average of 1.7% in the month after the announcement. Studies in America report even bigger gains. LogicaCMG says that, if British firms increase their outsourcing by half by the end of the decade, an extra £10 billion ($18 billion) will be added to their stockmarket value.

The striking bottom line? According to the OECD, close to 20% of total employment in the 15 pre-expansion EU countries, America, Canada and Australia could "potentially be affected" by the international sourcing of services activities.

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GM foods and trade

The Luddites make ground

Jun 30th 2005
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The EU is to let some countries persist with national bans on GM food crops

Get article background

GREAT news for Luddite greens; a big blow to the biotech seed firms; one more obstacle to transatlantic trade co-operation. That was what the environment ministers of European Union (EU) countries achieved on June 24th when they rejected an effort by the European Commission to force open a few national doors to a few genetically modified (GM) crops.

Despite deep public suspicion of GM in Europe, the balance, for over a year, had been quietly shifting in GM's favour. In 1999, the EU had imposed a moratorium on any new GM approvals. By 2003, GM maize and soya were widely grown in the western hemisphere, and the big exporting countries were fed up. That August, America, Argentina and Canada took the EU to the World Trade Organisation.

But the EU had already side-stepped that threat. In place of the moratorium, it brought in complex rules on the labelling of GM content in food and animal feed. To critics, the remedy looked as bad as the disease. But it did, in theory, allow more imports, and the spread of GM farming in Europe. Some GM maize was already grown in Spain, for instance. And chinks in the door have been widening, thanks to the EU's curious decision-making procedures.

Suppose, say, Monsanto or its Swiss rival Syngenta want authorisation for some GM variety of grain. The commission, the EU's central bureaucracy, consults the European Food Safety Authority. If that body is in favour, the commission puts the proposal to a committee of national experts. If they cannot agree, it goes up to the Council of Ministers—environmental ministers, in this case—representing the EU's national governments. If they reach a view, within a three-month time limit, that is that. But if not, the matter goes back to the commission, to decide as it pleases.

Little by little, that has been happening. In November 2003, the commission approved the import of a Syngenta sweetcorn called Bt-11 after the council failed to come to a decision. The same happened early last year with NK603, a Monsanto maize for animal feed. A Monsanto oilseed rape (canola) is now in this process. Under a different regulation, another Monsanto maize, MON810, last September got EU authorisation.

But approval from Brussels is not the last word. Several EU states have a national ban on sundry GM varieties. Last week, the commission had asked the council to strike down five such bans. It got a shock. With Finland and Sweden abstaining, only the British and the Dutch gave it support. By large majorities, the bans remain in force.

Still worse for the biotechies, the commission said, publicly, that the voting sent “a political signal”. Of what? In the commission's version “that member states may want to revisit some aspects of the existing system”. In plainer English, a signal to itself: the days when it can count on discord among national governments and go its own way on GM foods are over.

That will not worry Europe's GM-fearing consumers, nor therefore the supermarkets or food producers that supply them. But it is bad news for EU farmers, increasingly subject to real-world prices and competition from rivals who, above all in soya and maize, are rapidly seizing on the cost-cutting benefits of GM varieties.

And it may be bad for trade relations. The EU's transatlantic suppliers cannot defy its new labelling rules: much of the soya they send to the EU (3.5m tonnes from America, 8.4m tonnes from Brazil, last year) is GM and is duly labelled, even though most goes only to animals. But they are angry. They

sabotaged a United Nations attempt, at Montreal at the end of May, to get global agreement on a tough labelling regime. They will see the EU's readiness to let member states prolong private bans on GM as yet another backdoor way, in the name of health or the environment, to prolong protectionism.

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Doing business in Africa

Different skills required

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Can the private sector help make Africa work better?

BEFORE the leaders of the G8 meet in Scotland to talk about helping Africa (see article) on July 6th-8th, companies will gather for their own "G8 Business Summit" in London. Developing a flourishing private sector is crucial if the aid, debt forgiveness and trade reform that, it is hoped, will emerge from the G8 is to bear fruit. The business summit will try to figure out what the private sector can do to improve the business climate in Africa.

Much needs to be done. According to the World Bank's annual "Doing Business" report, sub-Saharan Africa is, on average, the most difficult place to do business in the world when it comes to red tape. The report examines regulatory obstacles and ranks performance using criteria such as ease of starting and closing a business, hiring and firing workers, enforcing contracts, getting credit and protecting investors. The 2005 report found that, in the previous year, sub-Saharan Africa had also reformed less than any other region.

As a result, over 40% of the region's economy is informal—the highest proportion in the world. Big foreign investors are said often to negotiate special deals while small local entrepreneurs are left to cope with business-unfriendly rules that make it hard for them to survive. And firms of all sorts must contend with the severe problems of political upheaval, war, corruption and an HIV/AIDS pandemic.

Yet a growing number of firms now talk of sub-Saharan Africa as a land of opportunity. "If there was any more of Africa, we'd be investing in it," says Graham Mackay, boss of SABMiller. The brewing giant, formerly of South Africa but now headquartered in London, has interests in 29 African countries. South African businesses are particularly optimistic about the rest of the continent and, with investments worth over R16 billion (US$2.4 billion), have become key investors in the southern tip of Africa. In addition to the traditional mining firms, new arrivals (banks, mobile-phone firms and retailers) have been active north of the border—and making money.

Yet cumbersome logistics, poor infrastructure, abundant red tape, a shortage of skilled workers and HIV/AIDS remain real challenges. Local entrepreneurs face other problems as well, such as lack of capital—despite the rapid growth of micro-finance in some parts of Africa.

Yet, outside troubled countries such as Sudan and Zimbabwe, there is healthy economic growth to exploit. GDP in each of 14 sub-Saharan African countries has grown by at least 5% a year since the mid-1990s. Botswana and South Africa have long topped "best African business environment" charts, but other countries are making quiet progress. Since Uganda started to improve its business environment in the early 1990s, private investment as a share of GDP has more than doubled. Some foreign investors point to a drop in petty corruption and better courts in important countries such as Nigeria.

For Strive Masiyiwa, an entrepreneur from Zimbabwe who heads Econet, a telecoms firm, doing business in Africa is no harder than anywhere else—it simply requires a different set of skills. In a region in which the state remains a major economic actor, investors must deal with governments and nascent regulators (which is why corruption is rife in some countries). Those inclined to behave legally need patience and tenacity. It took Mr Masiyiwa five years of court battles before he could launch a mobile-phone network in Zimbabwe. But Econet has now expanded to Botswana, Nigeria, Kenya and Lesotho, and is looking at other opportunities.

Creativity is also needed to adapt to local conditions and demand. In Uganda, SABMiller realised that importing barley made beer too expensive. Working with a local agricultural-research outfit, the brewer developed a strand of sorghum that could be used to produce clear beer. The resulting Eagle Lager has

been a success, and 3,500 local farmers now supply the brewer. Mobile-phone companies have excelled at tapping into the informal sector to distribute pre-paid airtime.

There is unmet demand for many goods and services. Competitors are often rare, and thus margins fat. Last year, MTN, a South African mobile-phone operator with networks in Nigeria, Cameroon, Uganda, Rwanda and Swaziland, increased subscriber numbers by 50% to about 14m, boosting net profits by over 45%. Outside South Africa, its operating margin is around 50%. Standard Bank, a South African bank present in another 17 African countries, saw its headline profits in the region grow by 30% last year.

Boasting brand Africa

Many businesses in the continent now talk of doing their bit to improve “brand Africa”. After consultations for the “Commission for Africa” report, prepared with the G8 summit in mind, a group of big multinationals including De Beers, Nestlé and Standard Chartered has formed Business Action for Africa (BAA), which will be launched at next week's business summit. The idea is to work with governments and non-governmental organisations to improve business conditions in the region. As well as applying collective pressure to governments, BAA intends to promote good business practices and a more balanced view of Africa.

The Investment Climate Facility for Africa (ICF), to be launched in October, may provide another way for the private sector to contribute. In the 24 countries subjecting themselves to the scrutiny of their peers under the New Partnership for Africa's Development (NEPAD) initiative, the ICF aims to bring the private sector and governments together to improve investment conditions. Over its intended seven-year life, the ICF wants to double investment and raise the number of registered firms by 40%. An independent trust, the ICF is banking on the strong African private-sector representation on its board to find pragmatic solutions. Backed by key African institutions, international donor agencies and big private-sector firms, it is now trying to raise $550m.

If the big companies involved in such initiatives can persuade governments to improve the general business environment, smaller local entrepreneurs should benefit, too. There has been real (unreported) progress. But there is still a long way to go. As Mr Masiyiwa puts it, “In the beauty parade for investment, we're learning the catwalk, but we are probably not yet wearing the best dresses.”

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Face value

With God on his side

Jun 30th 2005
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AP

Is Richard Scrushy's acquittal on 36 fraud charges as miraculous as it seems?

"GOD is good," declared Richard Scrushy on June 28th, after a jury acquitted him on all of the 36 charges he faced in connection with a huge accounting fraud at HealthSouth, an outpatient-services provider he once ran. Mr Scrushy's words surely came from the heart: as the trial began, most pundits thought he would need a miracle to end it a free man. The evidence against him seemed at least as strong as that in some of the other recent trials of corporate bosses, which have convicted (among others) Bernie Ebbers of WorldCom, Dennis Kozlowski of Tyco and John Rigas of Adelphia. Those ready to testify against Mr Scrushy included no less than five former HealthSouth chief financial officers, who had already pleaded guilty to inflating profits in 1996-2002 by what prosecutors said was $2.7 billion. (The firm's restated results, released on June 27th, put the total mis-statement at $3.9 billion.) Moreover, Mr Scrushy was the first chief executive to stand trial for allegedly breaching Sarbanes-Oxley, a tough new law passed after the collapse of Enron and WorldCom to ensure that errant bosses are brought to justice.

It is tempting—especially if you live in some far off metropolis—to assume that Mr Scrushy instead experienced a traditional sort of Alabama justice. Mr Scrushy's roots go deep in Birmingham, where HealthSouth is based and his trial took place. The judge once rode horses at his stable (prosecutors declined her offer to stand down for that reason). His lawyers painted Mr Scrushy as a humble man from nearby Selma, targeted unfairly by the federal government. After the trial, Mr Scrushy joined in the local sport of Washington-bashing, saying, "we've got to have compassion, folks, because you don't know who's going to be attacked next." In closing arguments Donald Watkins, one of Mr Scrushy's lawyers, compared his client's plight to what he himself faced growing up black under segregation.

Mr Scrushy had used his large salary—including an $11.8m bonus and 1m options in 2002—to finance side businesses that included a local radio show he co-hosted with an actor from "The Wonder Years", a 1980s TV series. He now co-hosts, with his (third) wife, a Christian TV show. While on trial he preached in local churches, in what some observers consider a blatant attempt to influence the jury via congregation members. (Future defendants tempted to play the religion card should note that it is not always successful. A New York jury was not won round by the frequent church-going of Mr Ebbers. Still, Kenneth Lay, the ex-boss of Enron—due to be tried next year, probably in his home town, Houston,

Texas—may now be more tempted to call as a character witness the Reverend Jesse Jackson. After Enron's collapse, he likened Mr Lay to that innocent biblical victim, Job.)

Speaking after the trial, jurors clearly resented suggestions that Mr Scrushy's religion, local roots or supporters in the courtroom influenced their decision. And while it is never really possible to know why a jury reaches a particular decision, even given the post-trial interviews allowed in America, there were certainly other reasons with more legal merit than hometown bias that may have led to Mr Scrushy's acquittal.

One is the lack of hard evidence, such as documents or e-mails, linking Mr Scrushy to the so-called "family meetings" at which finance and accounting executives cooked the books. A secretly taped "confession" secured from Mr Scrushy via a device hidden in the tie of one former chief financial officer, William Owens, was apparently too ambiguous for the jury.

Instead, prosecutors relied on testimony from Mr Scrushy's subordinates, who blamed their former boss. But Mr Scrushy's lawyers created sufficient doubt about the credibility of these witnesses in the minds of jurors. In this, they were helped, it seems, by some glaring personal failings—Mr Owens had not filed tax returns for nine years—and by the fact that many key witnesses testified under plea bargains that got them lighter sentences. Thus, defence lawyers could point out that these witnesses had a strong incentive to blame Mr Scrushy—regardless of the truth. That is a clear downside to the government's strategy in its recent corporate-crime campaign of pursuing plea bargains first from junior executives—who are then "flipped" into testifying against their bosses, and so on, all the way to the top. Lawyers for Mr Ebbers pointed out this plea-bargain paradox in the hope of undermining the key prosecution witness, his ex-chief financial officer, Scott Sullivan—causing at least one juror to hesitate before finally deciding to convict. Mr Lay and Jeffrey Skilling, another ex-boss of Enron, are expected to deploy similar arguments against former chief financial officer Andrew Fastow, who has accepted a ten-year jail term in a plea bargain.

Jurors may also have been unusually inclined to give the benefit of any doubt to Mr Scrushy because of the long jail term that probably awaited him, thanks to a significant recent toughening of sentencing guidelines. This week, the government sought an 85-year jail term for Mr Ebbers. By some estimates, Mr Scrushy could have got 300 years, albeit many to be served concurrently.

A scrushing blow?

One acquittal is hardly fatal to the government's strategy of seeking high-profile criminal convictions for bosses of scandal-hit firms. But it does highlight the fact that criminal trials are something of a lottery. Mr Scrushy's fate will add weight to the argument of some who claim that prosecutors have overreached, and that using civil rather than criminal procedures would yield more reliable results, and at far less cost to taxpayers.

Mr Scrushy will now keep most of his estimated $300m fortune. But he still faces several civil lawsuits, and federal prosecutors are considering their next moves. Mr Scrushy meanwhile hopes to get back his old job at the firm where, with 3.8m shares, he remains stubbornly on the board. But judging by the statements of the new management, that really will take a miracle.

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Chinese companies abroad

The dragon tucks in

Jun 30th 2005
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Chinese companies are becoming aggressive buyers of overseas assets. It will take longer for them to become smarter ones

Get article background

"TO SPREAD the 'China Threat' and try to curb China's progress and starve its energy needs is not in the interest of world stability and development. Such attempts are doomed to fail." These feisty words were uttered this week by Zhang Guobao, vice-chairman of China's National Development and Reform Commission, during a visit to an energy conference in New Orleans. He was responding to efforts by American politicians to block an $18.5 billion cash bid made on June 22nd by the China National Offshore Oil Company (CNOOC) for Unocal, a mid-sized American oil firm.

The spat over CNOOC is a symptom of the growing unease felt in developed economies, but especially in America, as more and more Chinese companies have looked abroad for expansion and technological know-how. Just days before the CNOOC bid, Haier, a white-goods maker, bid $2.25 billion for Maytag, a troubled American rival. In May IBM finalised the sale of its personal-computer arm to Lenovo, a deal that also raised political hackles in America.

Americans remember a similar period in the 1980s when Japan was accused of seeking global economic domination as its companies bought everything from Hollywood studios to paintings by Van Gogh. They seem to have forgotten that that threat proved transient, indeed was never really a threat at all. Now comes an increasingly assertive China, its companies flush with cheap cash and its government desperate to maintain its phenomenal economic momentum. As so often when politicians are involved, the truth about the overseas expansion of China's companies is much more complex than hot rhetoric suggests.

Even before the latest row over the CNOOC bid, there were clear signs of China's mounting interest in acquiring real assets abroad aside from oil and gas. The volume of transactions involving a Chinese buyer and an international target has jumped from $2 billion-3 billion in previous years to almost $23 billion for 2005 (see chart). Late last year Baosteel, China's largest steelmaker, made a big investment in Brazil, while in 2004 TCL, its leading television producer, bought most of the TV-manufacturing business of France's Thomson plus a mobile handset-making business from Alcatel. Other deals have been less visible, but no less important (see table).

Only the beginning

Selected announced Chinese M&A deals, 2003-05

Target	Acquirer	Deal value, $bn
Oil & gas assets, Gorgon LNG field, *(Australia)*	CNOOC	0.70
OZGEN (50%), *(Australia)*	China Huaneng Group	0.20
IBM (personal computer business), *(United States)*	Lenovo Group	1.75
Ssangyong Motor Co (48.9%), *(South Korea)*	SAIC	0.51
Unocal Corp, *(United States)*	CNOOC	18.50
Maytag Corp, *(United States)*	Qingdao Haier	2.25
PCCW (20%), *(Hong Kong)*	China Network Communications Group	1.02
PetroChina International, *(Indonesia)*	China National Petroleum Corp; PetroChina Co.	0.50

Source: Dealogic

“Going overseas for Chinese companies is a prerequisite for success,” argues Gordon Orr, a consultant with McKinsey in Shanghai. Indeed, there are more deals in the pipeline. SAIC, China's leading car company, remains keen on overseas expansion following an acquisition in South Korea and a last-minute withdrawal from buying Britain's MG Rover. ZTE and Huawei, the two main producers of telecom equipment, are already serving international clients and the latter is rumoured to be interested in Marconi, a perennially troubled British rival.

Does this amount to a carefully planned assault on global assets? For all its appearance as a communist-directed monolith, China is ultimately too fragmented for that. Unlike Japan's fabled Ministry of International Trade and Industry in the 1960s and 1970s, China does not have a single agency powerful enough to be an effective co-ordinator. Nevertheless, China's acquisition spree has clear political backing. The leadership in Beijing is determined to create its own set of “global champions”—30-50 internationally competitive, yet still state-controlled, firms.

To foster rapid growth and create jobs, China deliberately opened its domestic market to foreign competition relatively early in its economic development. But the quid pro quo implicit in this strategy was that the government would support, both diplomatically and financially, Chinese companies overseas.

The state imperative is most obvious in the quest for resources being led by the mainland's big oil, metal and commodity producers. Baosteel's South American investment, for example, is a joint-venture with CVRD, the world's largest producer of iron ore, vital for steel production. Capturing scarce resources was also behind the failed attempt this year by state-owned Minmetals, China's top base-metals producer, to spend $7 billion buying Canada's Noranda, one of the world's largest zinc, nickel and copper producers.

Resources of another kind, namely the management skills, brands and market access of international firms, are driving the second type of Chinese acquisition. Haier wants the Maytag and Hoover brands because its own brands failed to break through in America. And it wants a ready-made distribution channel to help get its own branded goods on to the shelves of big global retailers. SAIC sought Rover's design and engineering expertise, not its model range or factory. Lenovo, which even more than Haier

has failed to establish its name outside China, was willing to pay handsomely for IBM's blue-chip brand, which it can use for five years, even though the business is running at barely break-even in a market where prices are in free fall. And, common to all these deals, mainland managers see foreign acquisitions as a way to get their hands on the most modern internal processes, systems and strategic thinking.

Thank goodness for cheap money

Although it is clear what Chinese firms want, it is less clear that their buying spree will prove successful. In their favour, Chinese firms can contribute cheap finance, cut costs by relocating factories to China and tap their potentially vast domestic market. Of these, the first is the most compelling. For state firms—and most big companies still have government links—that do not have to make a commercial return or perhaps even repay loans from state banks, the cost of capital is very close to zero. This gives them a huge advantage when it comes to competing with private-sector firms from abroad. And there is increasing evidence that Chinese companies are routinely overpaying for assets.

CNOOC, for example, is currently offering around $2 billion more than Chevron for Unocal, despite the fact that it does not expect to make any cost savings (it promises not to fire Unocal staff), while the Americans are promising to squeeze out $325m. The Chinese bid is also entirely in cash, $3 billion of it from its own balance sheet. The only reason CNOOC can do this without ruining its financial ratios and potentially crushing its own share price is that $7 billion of the overall $20-billion deal costs (the $18.5 billion bid plus the assumption of some debt and a $500m “kill” fee to Chevron if the latter is seen off) is coming via a parent entity from its ultimate owner—the government. Another $6 billion is a loan from one of the big four state banks. Of the $7 billion, CNOOC has to pay no interest at all on $2.5 billion, and just 3.5% interest on the remaining $4.5 billion, a loan that lasts for 30 years. Since a 30-year American Treasury bond currently yields 4.2%, CNOOC is borrowing more cheaply than the American government, clearly nonsense in a world of rational economics. Given China's abundant domestic liquidity and $660 billion of foreign-exchange reserves, it is, however, a nonsense that could go on for a long time.

Successful Chinese acquirers should be able to cut costs by shifting manufacturing to mainland China—though obviously this does not apply to raw-material purchases. Haier certainly sees an opportunity at Maytag, which still has 13 of its 15 production sites in America. IBM, by contrast, already makes all of its PCs in low-cost countries, limiting gains for Lenovo. And Haier, if it wins Maytag, will face both deep resistance from the latter's strong unions and potential quality concerns among customers. Similarly, the synergies of introducing an acquisition's products into a vast domestic market may prove more ephemeral than real given that China's market is oversupplied and hugely competitive, with most global companies already present.

This is, indeed, a reason for scepticism about the current wave of foreign acquisitions: they are often motivated by a desire to escape problems at home. Certainly Lenovo, which is losing market share to Dell and Hewlett-Packard in China, fits that bill. Mary Ma, its finance director, admitted to *The Economist* when the IBM deal was announced: “If we just focus on China, we cannot generate returns for our shareholders.” Haier, too, is said by recent visitors to be “utterly downbeat” about falling margins and static profits at home, the result of excessive diversification and expansion. In America its company secretary recently admitted that “our brand overseas is a very minor brand”—hence the bid for Maytag.

Desperate buyers, however, run the risk of being stuck with dud assets. D'Long, a Chinese noodles-to-cement conglomerate, scooped up troubled foreign brands, including Murray lawnmowers and parts of bankrupt aircraft-maker Fairchild Dornier, before collapsing under its own debts last year. TCL is struggling to turn around the loss-making TV operations it bought from Thomson and has been left in a pickle by Alcatel after the French pulled out early from their handset joint-venture. On June 27th, Merrill Lynch downgraded its rating on TCL's TV arm, saying “the company clearly underestimated the deal complexity and the weak fundamentals of Thomson's TV business.”

Integrating foreign acquisitions can trip up even experienced acquirers. But while western executives quickly learn from their mistakes (or lose their jobs), China's political system makes its managers particularly unsuitable for running complex, global companies that demand consistent strategies. In an environment of regulatory inconsistency, corruption and political patronage, Chinese companies have tended to pursue short-term returns and excessive diversification rather than long-term technological development. And rather than build networks of suppliers and customers, they have preferred to curry favour with bureaucrats and party officials.

All of this can be unlearned, though it will take time. One encouraging sign in the latest transactions is

that Chinese companies are looking outside their country for help, not just for bid targets. Both Lenovo and Haier have worked with western private-equity firms to defray some of the costs and risks of their bids, as well as to gain access to experienced managers. CNOOC is showing even more sophistication. To increase its chances of winning Unocal, it has hired local law firms, lobbyists and public-relations advisers with clout on Capitol Hill. That shows a willingness to learn that contrasts with Japan's companies when they were on their spending spree. Western financial firms are also closely involved with CNOOC's bid.

Indeed, the care being taken over the bid is a measure of China's ambitions in the sensitive energy sector. China is eager to secure energy resources that it considers essential for its future growth. So the battle over Unocal, whatever its outcome, promises to be the first of many. How America reacts will have huge ramifications on future Chinese energy policy and military strategy. The signs are not good.

The Chinese had flirted with a bid for Unocal for months, but rival Chevron swooped in with an offer back in April. Unocal's management and regulators approved the deal, although shareholders have not yet voted. So CNOOC's bid has a chance if Unocal's management is willing to jilt Chevron.

Cocking a CNOOC

Will that happen? Because CNOOC is controlled and financed largely by the Chinese government, Chevron is crying foul. Peter Robertson, its vice-chairman, declares that, if his rival is allowed to buy Unocal, then “over time, oil will be diverted to China on a non-commercial basis”—though, when pressed, he cannot explain why this is necessarily bad for America. However questionable, the claim spreads fear of China gobbling up American oil and gas, and might thereby allow Chevron to avoid having to sweeten its own offer.

Many American politicians have been receptive to Chevron's pleas. Over 40 Congressmen signed an open letter this week expressing concern about the Chinese bid. The White House rejected a request from CNOOC for an expedited review of the deal, meaning things could drag on for months. This uncertainty favours Chevron. Joe Barton, a powerful Republican congressman from Texas, even demanded that the deal simply be blocked, declaring baldly that “this transaction poses a clear threat to the energy and national security of the United States.”

Is America's energy security really at risk as politicians claim, or is this simply grandstanding? The case is hard to make. Unocal is a puny player on the world oil and gas scene. By size, it does not even rank among the top-40 global oil or gas firms. Ironically, the greater risk to America's long-term energy security may come if China reacts badly to the unseemly rush to block the deal. If purchases on the open market are thwarted, then China might seek more aggressive, and possibly hostile, paths toward its own energy-security goals. The Chinese have already grown increasingly uneasy as their tankers have brought ever more oil from the Middle East under the watchful eye of the American navy. They are mindful that they can do nothing to stop a military blockade.

Another reason to worry less about China's intentions is provided by the way oil markets have changed in recent decades. Liquid oil-futures contracts have shifted the market from one based on rigid bilateral deals to a dynamic one in which oil is a fungible, global commodity. Tom Wallin, head of the Energy Intelligence Group, an industry publisher, argues that “in a globalised market, equity oil doesn't buy you energy security because price risk is still there. If there's a big shock in Saudi Arabia, the price of West

Texas oil will shoot up too." Lee Raymond, chairman of Exxon Mobil, the world's biggest publicly listed oil firm and a powerful industry voice, sided with the free marketers last week, declaring that it would be "a big mistake" to block the CNOOC bid.

A sense of double standards over CNOOC's bid may be what rankles with the Chinese the most. When Saudi Arabia's Aramco and Venezuela's PDVSA bought American refineries and petrol stations, nobody objected. Further, when American energy firms come to China, notes Mr Zhang, they expect to be welcomed. "It's unbelievable...many US companies have investments in China, and we also think it's just a business." The irony is that one of those American firms is Chevron, which has had a partnership to develop hydrocarbons off China's coast with CNOOC itself.

"Whatever happens with Unocal, China will continue to expand on the world stage," argues Michelle Billig of Pira Energy, a consultancy. The roots of that expansion go back to 1993, when the country first became a net oil importer. Shortly thereafter, CNPC, another state-owned oil company, splashed out on oil acquisitions in Sudan, Kazakhstan, Venezuela and Peru. Chinese firms also used "oil diplomacy" to pursue deals, with rather less success, in Yemen, Oman, Iran and even Iraq in the late 1990s.

China has pressed hard in recent years to secure access to oil and gas in the Caspian and in Russia, hoping to bypass sea lanes that can be blockaded by America. However, its efforts have mostly been stymied, in part due to quiet diplomatic pressure from the Americans. There is talk of China developing deep-water ports in Asia along the route from the Middle East, including in Myanmar, again as a response to American control of shipping channels.

In pursuing this aggressive energy policy, China has spent tens of billions of dollars overseas on what J.P. Morgan, an investment bank, calls "strategic mercantilism". That phrase evokes historical parallels with the rise of other great powers, such as Britain and America, and their efforts to secure energy assets overseas. Britain locked up Iran's oil wealth in the Anglo-Persian Oil Company (later BP), and America created Aramco in Saudi Arabia.

The better analogy for Chinese energy policy is probably Japan, which has been trying since the 1970s to foster a national oil company. The government's bureaucrats squandered billions of dollars on oil acquisitions and exploration licences overseas. At last, in utter disgust and failure, Japan disbanded its national oil company earlier this year. As one Asian energy guru puts it, "the best way to describe Chinese energy policy is that they are copying the Japanese example—badly."

So, like Japanese firms in Hollywood and elsewhere in the 1980s, it seems that Chinese companies that are buying overseas now are mostly being taken in like tourists. If they overpay, resource companies will at least have something to show for their money. Many deals in other sectors look ropy, a consequence of buying poor assets. "But even if these companies suffer brutal losses, there will be plenty of others," predicts Joe Zhang, an analyst with UBS in Hong Kong. "Thousands of not-so-ready Chinese companies are waiting in the wings."

In terms of peacefully integrating China into the world economy, this is to be welcomed, not feared. Chinese companies will make their mistakes, and they will need to learn fast. Another wave of hopefuls is already discernible. On June 28th, Thomson of France sold the final leg of its TV operations—not to China's TCL, its partner until now, but to an Indian rival.

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Hedge funds

Looking for trouble

Jun 30th 2005 | FRANKFURT, LONDON AND NEW YORK
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Regulators have hedge funds in their sights again, as the once-exclusive industry draws in a wider range of investors

IT LOOKS like being a long stretch for the G8 at Gleneagles next week. There is poverty, to be made history. There is global warming, to be reversed. And, perhaps, there is capitalism, to be kept safe from hedge funds. Germany's chancellor, Gerhard Schröder, has said that he wants to discuss regulating these funds in an international context, though his peers appear less keen.

For the Germans, the hedge-fund issue is not so much about preserving global financial stability or protecting investors—the usual reasons given when talking of tightening supervision of these fast-growing, lightly-regulated investment pools—as about safeguarding beleaguered German companies. It was a shock when, in mid-May, a small London hedge fund, The Children's Investment Fund, forced the departure of the chairman and chief executive of Deutsche Börse, a German exchange operator. Many asked whether it was right that a minority shareholder—hedge fund or not—should wield so much power. Now Hans Eichel, Germany's minister of finance, and his officials would like to internationalise the debate.

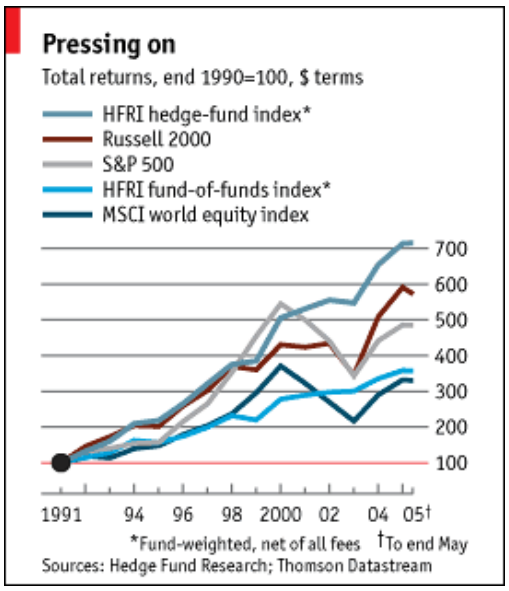
Outside Germany, that debate is more about hedge funds' transparency than about hyperactive corporate governance. The funds, which manage assets worth $1 trillion and account for between a third and a half of all trading on the New York and London stockmarkets, have become increasingly important as a source of liquidity to the markets and as a factor in the health of the banks with which they do business. Hedge funds, or beasts that look mighty like them, are also becoming more accessible to retail *hoi polloi*.

Last week Britain's Financial Services Authority (FSA) published two discussion papers to encourage debate on whether its light regulatory touch needs to be firmer. The FSA suggested looking harder at “high-impact” funds, market conduct and the bits of banks that finance hedge funds—but no new red tape. It said that the world's watchdogs should work together, to avoid driving hedge funds into less-regulated havens. And it drew attention to moves within Europe to shape widely divergent regulatory regimes into a single corral.

Across the pond, America's Securities and Exchange Commission (SEC) is wrestling with its own

problems, especially a controversial new rule requiring hedge-fund managers to register from next year. Heading its way is a lawsuit that challenges both the legal and the procedural bases on which it was adopted. Brought by Phillip Goldstein, a hedge-fund investment adviser, the suit got a boost on June 21st when the courts told the SEC to reconsider another rule, on mutual funds. On June 29th, at William Donaldson's last session in the chair, the SEC voted, in an acrimonious 3-2 split, to press ahead.

Two things have dragged hedge funds into the regulatory spotlight recently. The first is the tumble that some took in April and May, when problems in credit derivatives and convertible bonds produced serious red ink. A number have since decided to fold—including the Cromwell Fund of London's Bailey Coates, America's Marin Capital Partners and Aman Capital Global Fund in Singapore. But the broader contagion that some were predicting did not occur, and hedge-fund returns are bound upwards once again (see chart).



The other, more important, development is the broadening of hedge funds' investor base. Once the preserve of the super-rich and of cutting-edge foundations such as Yale University's endowment fund, they have become increasingly popular with two new groups: the well-off who are not super-rich—with around $1m-5m in assets—and institutional investors anxious both to improve wan returns and to invest in uncorrelated assets.

Barry Colvin of Tremont Capital, an American research firm, says that institutions today account for well over half of all new hedge-fund inflows, up from a quarter a few years ago. Greenwich Associates, another, found that 32% of European institutions invested in hedge funds last year, up from 23% in 2003; and 43% said that they wanted to boost the figure in 2005.

The rumour that BT's pension fund was considering putting up to 10% of its £30 billion ($54 billion) of assets into alternative investments such as hedge funds made headlines in Britain this week. CalPERS, which looks after the pensions of California's public employees, recently raised its hedge-fund allocation to $2 billion. Corporate pension funds in America are also dipping cautious toes into the water, says Roger Smith of Greenwich Associates, a consulting firm.

Hedge funds for beginners

Most new investors start with funds of hedge funds: in exchange for an additional layer of fees, they delegate responsibility for due diligence and diversify their bets in an unfamiliar market. Big institutions, however, are increasingly inclined to invest directly, saving the double-whammy in fees which helps to drag down net performance. In a recent poll, Morgan Stanley, an investment bank, found that 71% of endowment funds were keen to do so.

With investors like these, hedge funds' pleas to remain exempt from the sort of regulation that other pooled investments such as mutual funds incur are broadly plausible. But ordinary investors too are showing more interest in investing. America makes it hardest for them to do so, requiring minimum net worth of $1m and a run of $200,000 in annual income.

Many successful hedge funds themselves demand minimum investments of several million dollars or are closed altogether to new money. But funds of hedge funds typically accept much smaller sums from qualifying investors. Quadriga, an Austrian fund-management company, launched a “retail hedge fund” in its home country and, although it cannot market itself as a hedge fund in America, permits Americans to buy in for $5,000.

Meanwhile, regulated investment companies are trying to get into the game. Some offer mutual funds with rudiments of hedge-fund strategy (mainly “shorting” stock—betting that the price will fall—along with owning shares outright) to ordinary folk. Lake Partners in Greenwich, Connecticut, is one that runs such a portfolio.

As hedge funds' investor base becomes more democratic, the scramble to track the funds is under way. Last week Morningstar, the biggest rater of mutual funds, announced that subscribers could now track 1,600 hedge funds on its website. It wants to be covering at least 3,000 by the end of the year. Ryan Tagal, who is building the database, says it is uphill work, because hedge-fund managers are not in the habit of sharing information. Lipper, another purveyor of mutual-fund data, has bought HedgeWorld, an online research firm, and the giant TASS database that powers it. Michael Peace, Lipper's chief executive, also talks of ways to evaluate hedge funds.

Many question whether a mainstream fund-rating firm is up to the task, and point out that, if retail investors are led to rely on faulty measures, they may find themselves in trouble. But should they be in hedge funds at all? Narayan Naik, of London Business School, is one who thinks not. “Hedge funds are not a retail product. The costs and risks to the average investor are higher than the probable returns.”

The irony is that regulators seem determined to tighten their grip on hedge funds just as the funds' moment of greatest glory has arguably passed. Inflows of new money may have peaked in 2002, on figures from Hedge Fund Research, a Chicago firm. Returns are not only lower than they were but have become more linked to the underlying markets, some in the business say: outperformance is more elusive. And a few managers of rich people's money whisper that they are beginning to scale back their hedge-fund allocations. On to private equity?

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Pay in the financial industry

Follow the money

Jun 30th 2005
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London hedge-fund managers top a survey of financial-industry pay

DESPITE the troubles of a few hedge funds over the past few months, managing them can still pay pretty well, especially in London. It was reported this week that one chap scooped £11.4m ($20.7m) in the year to last November—actually, a bit less than he had pulled down the year before. And a new survey finds that, right now, London and the hedge-fund business are the most rewarding places in the financial world—materially, at any rate.

British-based financial professionals, especially those working in London, come out on top in the fourth two-yearly compensation survey by Russell Reynolds, a firm of head-hunters, and the CFA Institute (the global organisation of chartered financial analysts). Ten countries were surveyed. British investment professionals beat the median total pay packet (salary, bonus and non-cash compensation) by 40%. Their average annual package was worth £115,500 ($217,048 at the time of calculation). The British premium is even greater for those who have worked a decade or more.

Investment professionals in Switzerland ($170,354), America ($170,000) and Japan ($163,199) are in the second tier on pay. Those in South Africa ($134,946), Australia ($131,291) and Germany ($128,217) are on the next level. Overall, professionals in Hong Kong ($114,098), Canada ($100,762) and Singapore ($79,592) earn far less than their peers in the other places surveyed.

It will not surprise *The Economist*'s neighbours in St James's, home to many of London's hedge funds, that, when pay across sectors is considered, hedge-fund managers sit atop the money pile. They pull in total packages of $198,852 on average, well above everyone else. Next come those in mutual-fund management ($179,173) and securities broker-dealers ($174,930). Bankers, pension or investment consultants, and investment counsellors follow. Spare a thought and shed a tear, though, for those working in insurance. They're on the bottom rung at $129,585.

Perhaps not surprisingly, it pays to be an expatriate. American financial firms pay more outside America than their domestic rivals do; foreign employers in the United States pay more than Americans. Expats in Hong Kong, Japan and South Africa have the biggest pay advantage over locals. And a pay disparity between men and women is still plain in most countries, especially in South Africa (where women earn 27% less than men) and Singapore (25%). However, the gender gap is narrow in Japan (5%) and favours women in Germany, where they earn 14% more than men.

Impressive as the numbers are, investment professionals have had better years. Median compensation in 2005 is greater than in 2003 (adjusting for movements in exchange rates), but is still not at the heights of 2001 (when only America, Britain, Canada, Hong Kong and Singapore were surveyed). It's a good living nonetheless.

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Class-action lawsuits

Prosecutors probe plaintiffs

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An indictment alleges foul play behind American shareholders' lawsuits

SEYMOUR LAZAR was an active investor who was not shy of seeking comfort in court when his stock picks tanked. According to an indictment filed in a federal court in Los Angeles, unveiled on June 23rd, between 1976 and 2004 Mr Lazar and his family were plaintiffs in more than 50 class-action lawsuits against both giant companies (British Petroleum, Lockheed) and tiddlers (Concord Holdings, ZZZZ Best). Prosecutors claim that, in return for acting as lead plaintiff, he received $2.4m in illicit kickbacks from an unnamed New York law firm.

This firm is widely believed to be Milberg Weiss, which has played a seminal role in the development of shareholder litigation. Milberg Weiss says that for the past three years it has co-operated in the investigation of Mr Lazar. The firm adds that it is “outraged”, “surprised” and “disappointed” by “baseless” allegations that have unfairly implicated it in the alleged wrongdoing.

The 67-page indictment describes a complex scheme. Mr Lazar, it is alleged, would become the lead plaintiff in a class-action lawsuit and then receive payments that originated with the New York law firm but were secretly channelled through other lawyers, including one Paul Selzer. Both Mr Lazar and Mr Selzer have been charged with money-laundering. Mr Lazar faces other charges too, including obstruction of justice and making illegal payments to a witness.

Mr Lazar is far from the only person to have served repeatedly as plaintiff in class-action shareholder litigation orchestrated by an aggressive law firm. The case has provoked widespread interest, because the motivation of these lead plaintiffs has always raised questions. In other forms of class-action lawsuits, notably those concerning civil rights, each member of the class stands to gain a similar, common benefit—for example, access to something that had previously been denied. In securities class-action suits, however, the gains are proportional to share ownership. Why, then, would small investors take on the burden of championing a suit?

Conjecture centred on law firms because until the class-action rules were changed in 1995, they clearly had most to gain. Lead plaintiffs, regardless of the size of their investment, were allowed to play a central role in the selection of counsel and their compensation (which could be as much as 40% of any settlement). This is not true now, because one of the largest shareholders is typically the lead litigant. In the multibillion-dollar suit against Enron, this was the University of California; against WorldCom, it was the New York State Retirement Fund. But small plaintiffs can still play a role by filing quickly, because this can still determine where the case is heard, and the venue can in turn affect the choice of lawyer.

For many years it was suspected, but always denied, that a number of law firms maintained a network of individuals who would buy token amounts of stock in many companies. These people would then be able to sue at the first sign of trouble. Named plaintiffs were barred from sharing their lawyers' fees, because they would have an incentive to maximise rather than minimise them, says James Copland, director of the Centre for Legal Policy at the Manhattan Institute. That would subvert a primary aim of tort cases—making victims whole—because a plaintiff sharing in the lawyers' cut would, in effect, be gaining at the expense of his fellows in the class action. It would also provide incentives for spurious litigation that companies might feel forced to settle.

The case against Mr Lazar, if there is something to it, may yield a rare insight into the methods of some of America's most aggressive law firms. However, it has come about just as the day of the individual plaintiff seems to be over. Yet as large public institutions take the lead, other problems can arise—such as the appearance of chosen lawyers as campaign contributors. Conflicts never end.

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Retired Americans' health care

Clearly unhealthy

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Public-sector employers count the cost of their health-care promises

THESE days, Americans have many reasons to worry about how they will make ends meet when they retire. Social Security is said to be teetering; corporate and public pension plans are saddled with big deficits. The fastest-growing problem, however, is that rocketing costs are making it increasingly hard for employers to pay for the health care that many of them provide for retired staff. Many companies—think of General Motors—are finding the sums unpleasant. And following an accounting rule finalised last August by the Government Accounting Standards Board (GASB), the standard-setter for America's state and local governments, public-sector employers are also trying to come to grips with the cost of their promises.

Currently, nearly all governments operate on a “pay-as-you-go” basis. They dole out cash to pay for the medical care of those who have retired, but set none aside for future obligations. Their accounts have mirrored this, reflecting only current health-care expenditures and not the cost of promises that are yet to come due. This, critics say, lets governments make promises without counting the cost to be borne by future taxpayers.

The GASB's new rules compel America's 84,000 state and local government entities, including public hospitals and schools and fire and police departments, to put a value on the “other post-employee retirement benefits” (OPEB)—consisting mostly of health care—they promise to employees. They will also have to record an expense (the “annual required contribution”) for the amount they would need to stash away to fund this long-term liability fully over 30 years. Actuaries estimate that this contribution could be five to ten times current annual outlays for retirees' health care. Unfunded contributions will appear as a liability on balance sheets. The rules will be phased in over three years, starting in fiscal years beginning after December 15th 2006 for the biggest governments.

The idea, says Karl Johnson of the GASB, is for the new rules to make the cost of retiree-health obligations clearer and thus keep governments from making over-generous promises. “These costs were always there,” he says. “They just weren't disclosed and often were not even measured.” The private sector has had similar rules since 1992. But the effect on the public sector could be much bigger, because government employers are likelier to provide health-care benefits to retired staff (77% of “large” governments do so, against 36% of comparable companies, according to the Kaiser Family Foundation). Public-sector benefits also tend to be more generous.

The unfunded liabilities that will come to light are likely to be huge, dwarfing many pension deficits, because pensions are pre-funded. Mercer Consulting reckons that governments that have not set aside money for future obligations will face liabilities 40-60 times the current annual cost of retirees' health care. So California, for instance, which allocated $895m for retirees' health care in the 2005-06 budget, could have an unfunded OPEB liability of around $36 billion. North Carolina estimates its liability at $13 billion-14 billion. The Los Angeles Unified School District puts its liability, at the low end, at $5 billion, equivalent to 80% of its general-purpose operating budget. Keenan & Associates, a consulting firm that works with California's school systems, estimates that the unfunded liability for the Golden State's schools and community colleges is $22 billion.

If governments do nothing, their credit ratings could be damaged and their cost of borrowing could rise. Joseph Mason of Fitch, a rating agency, says that his firm will look not only at the big unfunded liability numbers but also at the steps governments take to manage their OPEB obligations. “With health-care costs spiralling and workforces ageing,” he says, “standing still isn't a viable option.”

Employees worry that governments will cut health benefits, as the private sector did when its rules were introduced. Some firms dropped health-care coverage for new employees. Back in 1988, according to

Kaiser, 66% of big firms' health-care budgets went to retired employees compared with little more than a third today.

OPEB promises enjoy less legal protection than pension promises, some of which are even guaranteed in state constitutions. Even so, they may be hard to cut. The public sector is heavily unionised, so hacking at benefits could mean difficult negotiations or strikes. It would also damage morale and recruitment.

Governments are therefore scrambling to find other, politically more palatable options. Those in the best financial health may fund their OPEB promises in advance. Others are exploring milder ways of cutting costs. For instance, North Carolina, which gives its workers health benefits for life after only five years on the job, is considering lengthening the qualifying period. Some governments want employees or Medicare to foot more of the bill.

Several California school districts are talking to Wall Street about issuing bonds, as some states have done to shore up ailing pension plans. The idea is that, as long as the investment returns on the money raised are higher than the interest rates paid on debt, everyone gains. But this gamble can backfire, as it did for New Jersey, which issued pension bonds in 1997 and suffered when the technology bubble burst. There is no easy fix.

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German public-sector banks

Slow progress

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Why an end to state guarantees may change less than it should

FOUR years ago, Germany's private-sector banks won a battle in Brussels to end the state guarantees enjoyed by their public-sector rivals, the *Sparkassen*, or savings banks, and *Landesbanken*, or state banks, which act as wholesale banks for the *Sparkassen* and are partly owned by them. The public-sector banks have spent the past year or so hastily putting their houses in order, securing new capital and forming alliances so that they will be able to fund themselves after July 18th, when their debts will cease to be guaranteed.

Now another ruling, also with its roots in Brussels, may skew competition back in the public-sector banks' favour to a degree. It may also help the third bunch of banks in Germany, the co-operatives. Naturally, the private-sector banks are furious. The hoo-ha concerns the calculation of banks' regulatory capital, which according to international rules must be at least 8% of their risk-weighted assets.

Loans to other banks carry a risk weight of 20% when totting up the assets, compared with 100% for loans to non-banks. The savings banks and co-operative banks argue that they have mutual arrangements for risk-sharing and bail-outs, which make interbank loans within their sectors equivalent to loans to domestic subsidiaries. Such loans have a risk weight of zero and thus require no regulatory capital at all. Alexander Radwan, a German member of the European Parliament who co-ordinates a committee in Brussels that is revising bank capital rules, has tabled an amendment, to be considered on July 13th, that favours these arguments but allows national supervisors the final say.

If the savings banks get their way, estimate the private-sector banks, they would have €5.5 billion ($6.6 billion) in spare capital and the co-operative banks would have €2.5 billion. However, there is a chance that BaFin, the German financial regulator, will not regard interbank lending within the public and co-operative sectors as risk-free. The Bundesbank, Germany's central bank, which monitors bank liquidity, certainly does not.

Even so, an exception may be made for Landesbank Hessen-Thüringen (known as Helaba) and the group of 51 savings banks around it, which have truly centralised risk management and mutual support. They are regarded as a single entity by Standard & Poor's, a rating agency, and their debt is rated accordingly.

Other regional savings-bank groups have mutual-support arrangements, but they are looser. Landesbank Baden-Württemberg (LBBW), the strongest of the state banks, might run into antitrust trouble were it to get too cosy with its local savings banks, because together they control nearly two-thirds of lending to local companies. Nevertheless, Siegfried Jaschinski, LBBW's chief executive, believes that the provision of liquidity by *Landesbanken* to their local *Sparkassen* should be regarded as similar to the activities of a central bank, and thus enjoy a zero risk weight.

However, even a favourable ruling on interbank lending will not save most *Landesbanken* from their main problem: how can they compete profitably with the private-sector banks now that their old, natural business is to be phased out? For years, they have borrowed cheaply in the capital market, using their near-sovereign triple-A rating, and re-lent to other banks for a margin. Now that their ratings, without state guarantees, are mostly single-A, the margin has gone. In the past four years they have been issuing guaranteed bonds at a furious pace to beat the deadline (see chart), and doing related derivatives transactions such as interest-rate swaps, which also carry a guarantee; but that pile of cheap funds—guaranteed until 2015—will dwindle. They have to look for other sources of business.

Their options are limited. Most will make themselves unpopular with the savings banks—which are not only their customers but largely their owners—if they push into the retail market. Bremer Landesbank has had a rap on the knuckles for doing just that. Quite a few have tapped the *Sparkassen* for financial support. WestLB and Bayerische Landesbank have received capital injections from their local savings banks to bolster their credit ratings. On June 21st the state of Saxony agreed to pump €300m into Sachsen LB, a beleaguered eastern German *Landesbank* created in 1992, because the local savings banks were too poor to come to the rescue.

The public-sector banks could do with thorough restructuring. However, their immunity to privatisation, enshrined in state laws, is a big obstacle. The only exception is in Berlin, where Bankgesellschaft Berlin, a listed holding company, owns Landesbank Berlin, the private Berliner Bank, and the Berliner Sparkasse. Because of a property scandal that needed €21.6 billion of state guarantees to sort out, the European Commission has insisted that the group be broken up and sold in a way that does not exclude private buyers. There is some argument about whether Berliner Sparkasse, if it goes to a private buyer, can retain its savings-bank status.

The newly-elected government of North-Rhine Westphalia has said it is prepared to sell its 38% stake in WestLB, which is already a joint-stock company, but two groups of *Sparkassen* would still own most of the bank. True privatisation would still require a change in the law.

Some smaller *Landesbanken* have been joining forces with each other: Bremer Landesbank with NORD/LB, Landesbank Saar with Bayerische Landesbank, and Landesbank Rheinland-Pfalz with LBBW. Sachsen LB is looking for a buyer, possibly WestLB or NORD/LB. Helaba recently bought the ailing Frankfurter Sparkasse.

NORD/LB may have shown the way to a kind of privatisation. In June it put all its Scandinavian and east European operations and assets into a joint-venture with DnBNOR, Norway's biggest bank, which put up €157 million for a 51% stake. In effect NORD/LB has privatised some foreign operations and got them off its balance sheet. Whether a *Landesbank* could hive off its domestic activities into a private venture and leave the public part an empty shell is questionable. But it may be the only way to escape the lunacy of having uneconomic banks that aren't for sale.

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Credit cards

Bank of America's big buy

Jun 30th 2005
From The Economist print edition

At last, a stash for its cash

EVEN in a week with plenty of news to impress Wall Street, Bank of America's announcement on June 30th that it plans to buy MBNA was a gob-smacker. Bank of America is the country's second-biggest bank. MBNA is its largest stand-alone credit-card provider. And $35 billion—the price tag—is the second-biggest deal announced in America so far this year. MBNA's shares had been drifting up for weeks, but no one expected a deal so big or so soon.

The acquisition makes good sense for Bank of America, which has been looking for something to do with its money (earnings in the first quarter of 2005 were a record $4.7 billion). It has already hit its limit in retail banking and under the regulators' rules cannot acquire additional branches. It was (and still could be?) a possible buyer for Morgan Stanley, the embattled investment bank which, as *The Economist* went to press, looked likely to end months of civil war by asking former president John Mack to return to the helm. But even if Bank of America now never bids for Morgan Stanley, credit cards will fill the bill nicely.

Banks like the credit-card business because the juicy interest rates on card balances, combined with their own cheap deposits, produce fat profits. The credit-card business also offers access to a wider customer base. Three weeks ago, Washington Mutual, America's seventh-biggest bank, bought Providian Financial, a credit-card provider, for $6.5 billion. Citigroup has been a serial acquirer of store-card portfolios. And other banks too are eyeing credit-card targets too.

For the credit-card operators as well, merging with a bank makes sense. MBNA's own business has gone flat, as its pallid first-quarter results made clear. The company has given warning that full-year earnings will be “significantly below” its earnings-growth target of 10%. The credit-card business in America is highly concentrated already—the top ten issuers control 80-85% of the market—so it is difficult to gain market share. Competition from the big banks is putting pressure on stand-alone operators such as MBNA and Capital One. And the business and credit cycles may be about to turn nasty. Big retail banks' cheap and stable deposit base will help to cushion the shock of any downturn.

Other banks and card operators are still looking for partners. Capital One bought Hibernia, a big New Orleans bank, in March and is now building up its lending businesses. Will that be enough to keep Capital One from being swallowed up? In May, Wachovia, America's fifth-biggest bank, said it was interested in expanding in credit cards. And then, of course, there is Morgan Stanley, whose credit-card division, Discover, may yet be for sale, Mack or no Mack. Enter Bank of America yet again?

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Economics focus

Beware the bubbles

Jun 30th 2005
From The Economist print edition

Even in a world of low inflation, central bankers cannot sleep soundly

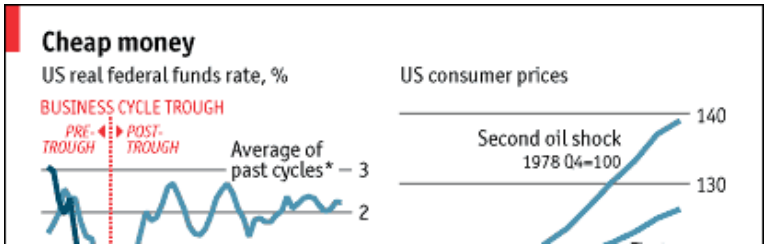
THE desk of *The Economist*'s economics editor is always piled high with reports on the global economy by official international institutions, central banks, think-tanks and investment banks. But in recent years one publication has towered above the others, thanks to its willingness to question the common complacency of policymakers: the annual report of the Bank for International Settlements (BIS), the so-called "central bankers' bank". The latest edition, published on June 27th, points out several causes for concern.

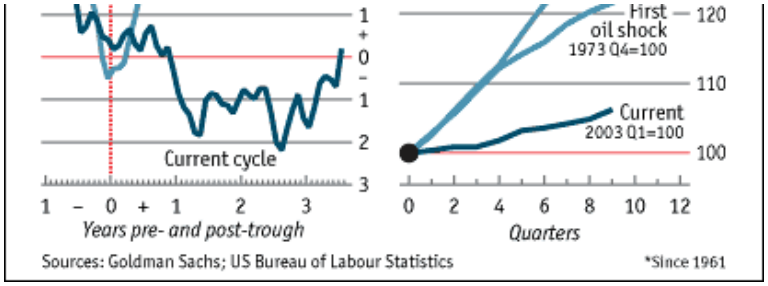
Not least, perhaps, are the worrying similarities between the world economy now and that of the late 1960s and early 1970s, just before inflation surged. Like today, that was a period when both short- and long-term interest rates were low in real terms, while credit expanded rapidly. On June 30th—after *The Economist* had gone to press—America's Federal Reserve was widely expected to raise its federal funds rate by another quarter of a percentage point, to 3.25%. Yet that would still leave real rates at less than 0.5%, well below their usual level at this stage of an economic recovery (see the left-hand chart below) and below most estimates of the "natural" rate of interest consistent with non-inflationary growth. Moreover, the impact of higher short-term rates in America over the past year has been partly offset by a fall in bond yields, leaving overall monetary conditions very loose. Indeed, money looks unusually easy worldwide, with real interest rates close to zero in many countries.

A second parallel with the past, says the BIS, is that America's loose monetary policy is being exported to the rest of the world. In the late 1960s this occurred through the fixed exchange rates of the Bretton Woods system, which forced other countries to ease their policies to hold their currencies steady against a sickly dollar. Similarly, in the past couple of years the dollar's slide has caused China and other Asian countries to accumulate dollar reserves, and so run a looser monetary policy than they otherwise might, in order to prevent their currencies appreciating. As a result, global liquidity has been rising at its fastest pace since the 1970s. A third ominous similarity with 30-odd years ago is the jump in the prices of commodities and oil. Last but not least, governments' budget deficits have widened sharply in recent years, just as they did before the Great Inflation of the 1970s.

However, the BIS thinks it is unlikely that history is about to repeat itself with another burst of inflation. Prices took off in the 1970s largely because of errors in policy. Policymakers have since learned the hard way that rising inflation harms growth. Central banks have also been made independent of politicians and given the prime goal of price stability, which has helped to anchor inflationary expectations.

There are also some important differences between now and the late 1960s and early 1970s. Rich economies are now much less dependent on oil, and wage pressures have been muted as globalisation and the threat of outsourcing have curbed the bargaining power of workers. Deregulation, new technology and the integration of China into the global economy have also reduced the price of many goods, making it easier for central banks to keep inflation low. This has made inflation less sensitive to rising oil and commodity prices (see the right-hand chart below).





Beware of new hazards ahead

Although the BIS is not losing much sleep over a future surge in inflation, it worries about a different sort of risk: the rapid growth in debt and asset prices. Ironically, this is partly due to central banks' success in defeating inflation. Thanks to globalisation and technology, which have helped to hold down inflation, central banks have recently not needed to raise interest rates by as much as in past cycles. Well-anchored inflationary expectations also allowed rates to be cut more vigorously when economies stumbled in 2001 after the stockmarket crash. The cumulative effect of this is very low short-term interest rates.

Another change over the past three decades is that financial systems have been liberalised, making it even easier to borrow during a boom. This combination of cheap money and a liberalised financial system, suggests the BIS, explains why there have been more booms and busts in credit and asset prices in recent years. Top of the BIS's current list of worries are house prices, which it reckons are now “vulnerable to downward corrections”—likely to fall, in plain English—in several countries, and the vast amount of household debt. Sooner or later these could cause severe global economic and financial strains.

The BIS argues that America needs to raise interest rates further in order to restrain risk-taking in financial markets and borrowing by households. With debts and house prices already so high, this will hurt consumer spending, but it could help to avoid a more painful adjustment later.

Looking ahead, the BIS argues that policymakers need to modify their current policy frameworks in order to prevent the build-up of imbalances in future. Targeting inflation is not enough. Central banks also need to take more account of the increase in debt and exceptional rises in asset prices. Thus interest rates should be raised to curb excessive credit growth even if inflation remains tame. Regulatory policy could also be adjusted in a discretionary way over the cycle. Banks could be encouraged to build up more capital during booms, which would help to avoid excessive lending, and then be allowed to reduce their capital in bad times to cushion the economy from a credit crunch. During a rampant house-price boom lenders might be told to reduce the amount they can lend as a percentage of the purchase price of a home or to shorten repayment periods—the exact opposite of what tends to happen now.

The Federal Reserve has rejected the advice of the BIS for many years, insisting that the main job of a central bank is simply to control inflation. The risk is that in single-mindedly looking out for inflationary icebergs, a central bank will fail to spot the rocks that lie dead ahead.

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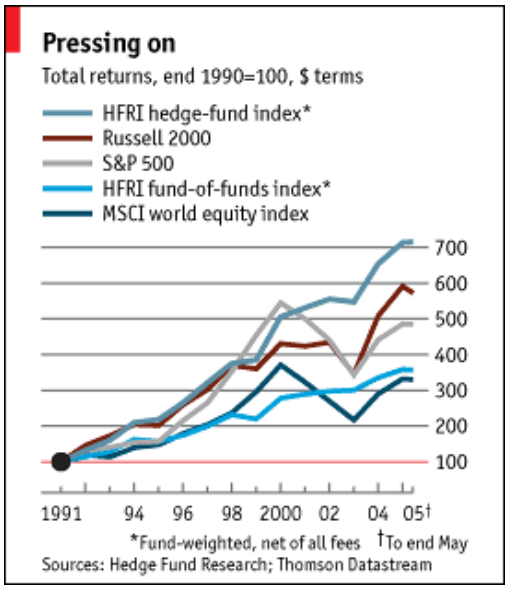
Correction: hedge funds

Jun 30th 2005
From The Economist print edition

An article on hedge funds in our May 28th issue ("Dead, or just resting?") contained a chart that was distorted by a calculation error. The performance of hedge funds, as measured by the HFRI hedge-fund index, was greatly understated. Sorry.

A revised, updated chart is reproduced below. We have also added a line showing the performance of funds of hedge funds.



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The Grand Challenges in Global Health

43 ways to save the world

Jun 30th 2005
From The Economist print edition

The Gates Foundation's latest largesse has just been announced. It will pay for some intriguing and original research. But will it translate into healthier people?

HALF a billion dollars is not to be sneezed at, even when divided 43 ways. And that, give or take a few million, was the sum at stake when a committee of the medical world's great and good decided who will take on what have become known as the Grand Challenges in Global Health. Most of the money to meet these challenges—$450m of it—comes from the Bill and Melinda Gates Foundation, the world's richest charity. The Wellcome Trust, Britain's richest, has chipped in $27m, and the Canadian government has added $4.5m. The 43 winners were announced on June 28th.

The Grand Challenges are 14 serious technical obstacles to a healthier world (see table) that were picked by the committee in the autumn of 2003, after its members had gone through several thousand submissions from the world's medical scientists. The specific challenges are, in turn, grouped under seven goals that range from the speculative (create new vaccines) to the mundane (measure health status accurately and economically in developing countries). They do not, of course, address what many might see as the biggest obstacles of all to better health—poverty and misgovernment. But they represent an imaginative approach to what medical science might do to alleviate the problem. The winning projects are all, if not entirely new, at least still in their preliminary phases, and the sponsors expect a lot of attrition along the way. Indeed, they will be leading the culling themselves, since many proposals have to meet “milestone” objectives by particular dates, otherwise they will have their funding cut off.

A challenging agenda

The 14 Grand Challenges:

GOAL: Improve childhood vaccines

1. Create effective single-dose vaccines that can be used soon after birth
2. Prepare vaccines that do not require refrigeration
3. Develop needle-free delivery systems for vaccines

GOAL: Create new vaccines

4. Devise reliable tests in model systems to evaluate

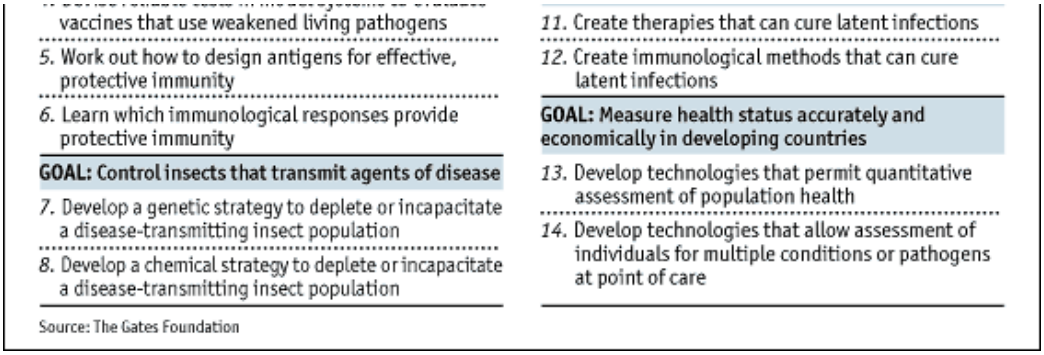
GOAL: Improve nutrition to promote health

9. Create a full range of optimal, bioavailable nutrients in a single staple plant species

GOAL: Improve drug treatment of infectious diseases

10. Discover drugs and delivery systems that minimise the likelihood of drug-resistant micro-organisms

GOAL: Cure latent and chronic infection



vaccines that use weakened living pathogens

5. Work out how to design antigens for effective, protective immunity

6. Learn which immunological responses provide protective immunity

GOAL: Control insects that transmit agents of disease

7. Develop a genetic strategy to deplete or incapacitate a disease-transmitting insect population

8. Develop a chemical strategy to deplete or incapacitate a disease-transmitting insect population

11. Create therapies that can cure latent infections

12. Create immunological methods that can cure latent infections

GOAL: Measure health status accurately and economically in developing countries

13. Develop technologies that permit quantitative assessment of population health

14. Develop technologies that allow assessment of individuals for multiple conditions or pathogens at point of care

Source: The Gates Foundation

And the winners are...

Some of the winning proposals sound truly wacky. Putting bacterial spores into people to prevent disease is probably top of that list. Yet it is a clever idea. One of the biggest obstacles to a healthier world is a lack of so-called cold chains for transporting temperature-sensitive medicines. Vaccines, in particular, need to be kept refrigerated if they are to remain effective. That is not easy in places where fridges are far apart and the electricity is unreliable.

Abraham Sonenshein, of Tufts University in Massachusetts, thinks that one way to overcome this problem is to incorporate vaccines into bacterial spores, which are famously resistant to changes in temperature. He proposes doing this through genetic engineering. Genes for proteins from disease organisms will be added to the bacteria in question in a way that will cause the proteins to be incorporated into the spore's coat, so that they are visible to the immune system. The spores themselves will therefore act as the vaccine. Dr Sonenshein is one of the winners of Grand Challenge number two: “Prepare vaccines that do not require refrigeration”. If his idea works it would, as a bonus, meet challenge number three: “develop needle-free delivery systems for vaccines”, since people would get vaccinated by drinking water laced with the spores.

The actual winners of challenge number three, though, all have variants of the same idea. This is to make what is, in essence, vaccine snuff. Three of these winners cannot resist modish use of the “n” prefix in their proposals. David Edwards, of Harvard, proposes nasal sprays containing “nanoparticle aerosols” made of vaccine. James Baker, of the University of Michigan, prefers “nanoemulsions” that can be administered as nose drops. Meanwhile, Maria Alonso, of the University of Santiago de Compostela, in Spain, opts for “surface-modified nanostructures”. But she, Dr Edwards, Dr Baker and, indeed, the other two winners have a common design. This is to produce something that will be absorbed by the mucous membranes of the respiratory tract. In some cases the goal is not merely to use mucous membranes as entry points, but also to stimulate an immune response in them directly. Existing vaccines work by stimulating bits of the immune system that work in the blood and the lymph. But soft, moist membranes are particularly vulnerable to bacteria and viruses, and have their own, private immune responses which might be recruited by a suitably designed vaccine.

Exploiting a mucosal response is also the goal of Robin Shattock, of St George's Hospital in London. His team proposes an AIDS vaccine that would encourage an immune response in a woman's vagina. That would stop HIV, the virus that causes AIDS, from getting into her body in the first place. And Francis Plummer of Canada's Centre for Infectious Disease Prevention and Control is studying AIDS, too. His group will look at the immune systems of a well-known group of Kenyan ladies of the night who, despite having lived for years with one of the biggest risks of exposure to HIV in the world, have not become infected.

There is also a long list of ideas for dealing with insect-borne diseases such as malaria and dengue, from tinkering with mosquito genetics in order to kill infected cells within the animal, via spreading genes that make mosquitoes sterile (obviously a hard task to perform in the face of normal evolutionary pressures) to infecting mosquitoes with bacteria that let them live long enough to reproduce, but kill them before they become infectious. And, since malnourished people are more likely to become ill, there are plans to develop strains of banana, cassava and rice that have a full complement of vitamins and minerals in them. There is even a plan for a hand-held diagnostic system, shades of Dr McCoy in “Star Trek”. This idea, proposed by Paul Yager of the University of Washington, would take a drop of blood and run it over a card covered with chemicals that react characteristically with molecules produced by particular diseases.

How many of these ideas will translate into lives saved is, of course, impossible to say—and that is not only because of uncertainties about which of them will work. As the quest to deliver anti-retroviral drugs to poor people with AIDS shows, implementation is everything. Such drugs have been available for almost a decade, but only now (see article) are significant numbers of those who need them actually receiving them. The Grand Challenge winners differ from anti-retrovirals in that they are being developed specifically for use in poor countries. But thinking now about how they will be delivered is just as important as getting the science right.

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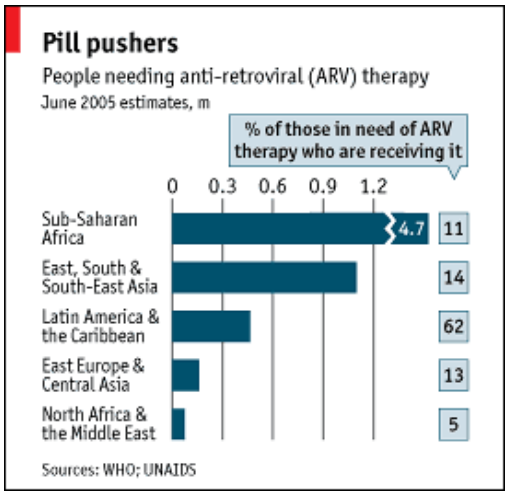
AIDS

Moving targets

Jun 30th 2005
From The Economist print edition

Progress, and problems, in treating AIDS around the world



ROUGHLY 30m people are infected with HIV, the virus that causes AIDS. The vast majority live in the poorer parts of the planet. Of these, an estimated 6.5m are in urgent need of anti-retroviral medicines—the cocktails of drugs that have, in rich countries, transformed AIDS from an acute lethal condition to a chronic complaint. Two years ago a concerted international effort was launched to get 3m of these people on to anti-retroviral therapy by the end of 2005—the “3 by 5” campaign as the World Health Organisation (WHO) dubbed it.

This week the WHO and UNAIDS, another United Nations body with responsibility for dealing with the disease, reported on progress so far. The good news is that the number of people now getting the drugs stands at roughly 1m—more than double what it was at the end of 2003. The bad news is that this achievement is 600,000 patients short of the mid-2005 target set by the WHO, which means that “3 by 5” looks like turning into “3 by 6” instead. Progress has been slower than expected, says Jim Kim, head of the WHO's HIV/AIDS department, in part because of bottlenecks in setting up procurement and supply-chain management in poor countries. There have also been problems training enough nurses and other health-care workers—the unglamorous bits of improving health-care systems.

While the shortfall is disappointing, there are some encouraging signs. Four years ago, a basic cocktail of anti-retroviral medicines cost $10,000 a year. Today that price has fallen to around $150 in many countries. The dramatic decline is thanks largely to the introduction of cheap generic medicines from Indian manufacturers and others, as well as discounting by multinational drug giants. That is not to say that drug prices and patents are no longer controversial. Last week, the Brazilian government said it would break the patent on an anti-retroviral drug produced by Abbott Laboratories, an American company, unless that firm agreed to match the much lower price of local manufacturers.

As the ever-optimistic Dr Kim points out, there are other positive developments, too. More poor countries are making AIDS a national priority, setting treatment targets and concrete plans for how to reach them. As treatment becomes available, more people are also turning up for counselling and testing, which in turn helps with AIDS prevention. And despite initial fears that women might have problems gaining access to treatment, there are as yet no signs of them losing out.

There is more money, too, with an estimated $27 billion to tackle AIDS on offer between 2005 and 2007. This is, however, still $18 billion short of what UNAIDS says is needed to get the job done. And there are serious obstacles to obtaining treatment if you are an intravenous drug user, a homosexual or a prostitute. In that case some squeamish governments—both of rich donor countries and poor recipients—would prefer not to deal with you. By far the biggest challenge, though, is not simply getting 3m people on to anti-retroviral therapy by the end of this year, but keeping them, and millions of others, on it for the rest of their lives.

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Comets

Star-spangled slammer

Jun 30th 2005
From The Economist print edition

Deep Impact prepares to live up to its name

AMERICA'S space agency, NASA, has always had one eye on the crowd. It is not, therefore, a coincidence that its *Deep Impact* probe will arrive at its target, comet Tempel 1, on July 4th. As is traditional, the anniversary of the American rebellion will be celebrated by fireworks on Earth. This year, thanks to the cunning of the agency's interplanetary navigators, there should be fireworks in the heavens, too.

Deep Impact's scientists, though, are not just trying to create an expensive display of patriotic pyrotechnics. By observing what is ejected from the crater created when part of the probe hits the comet they also hope to catch a glimpse of the material from which the Earth and the other planets were formed.

Astronomers are interested in comets because they are simpler and more primitive than planets. Both types of body formed 4.5 billion years ago from a cloud of gas and dust around the young sun. Comets, though, are believed to have changed little from those days while planets, being larger and thus more prone to heating up and melting (the heat is generated by radioactive minerals, and trapped inside large bodies), have undergone significant alteration. A comet is therefore something of a cosmic time capsule.

Deep Impact itself is actually composed of two smaller vehicles—a mother ship that will fly past the comet taking photographs and conducting other measurements, and a sophisticated, steerable copper bullet weighing 372kg that is intended to smash into the comet. On July 3rd, the bullet will separate from the mother ship and begin its journey towards Tempel 1. At around 05:52 Universal Time the next day it should hit the comet.

By observing how the crater forms, and the shape of the debris cloud, NASA's scientists hope to be able to tell something about the rigidity of the comet's material and how porous it is. And by analysing the spectrum of light from the debris, they will find out that material's chemical composition—although the comet has been giving up some of these secrets unprompted, with a series of natural outbursts in recent weeks.

Amateur observers in the western United States should be able to see Tempel 1 light up during the impact through a small telescope or possibly even a large pair of binoculars. For more information, consult http://deepimpact.umd.edu/amateur.

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Fusion power

Nuclear ambitions

Jun 30th 2005
From The Economist print edition

A step towards commercial fusion power. Perhaps

Get article background

THIS week, an international project to build a nuclear-fusion reactor came a step closer to reality when politicians agreed it should be constructed in France rather than in Japan, the other country lobbying to host it. The estimated cost is $12 billion, making it one of the most expensive scientific projects around—comparable financially with the International Space Station. It is scheduled to run for 30 years, which is handy since, for the past half century, fusion advocates have claimed that achieving commercial nuclear fusion is 30 years away.

The International Thermonuclear Experimental Reactor (ITER), as the project is known, is intended to be the final proving step before a commercial fusion reactor is built. It would demonstrate that power can be generated using the energy released when two light atomic nuclei are brought together to make a heavier one—a process similar to the one that powers the sun and other stars.

Advocates of fusion point to its alleged advantages over other forms of power generation. It is efficient, so only small quantities of fuel are needed. Unlike existing nuclear reactors, which produce nasty long-lived radioactive waste, the radioactive processes involved with fusion are relatively short-lived and the waste products benign. Unlike fossil-fuel plants, there are no carbon-dioxide emissions. And the principal fuel, a heavy isotope of hydrogen called deuterium, is present in ordinary water, of which there is no shortage.

The challenges of achieving fusion should not be underestimated. A large volume of gas must be heated to a temperature above that found at the centre of the sun. At the same time, that gas must be prevented from touching the walls of the reactor by confining it in a powerful magnetic field known as a magnetic bottle. The energy released in fusion is carried mostly by neutrons, a type of subatomic particle that has no electric charge and hence cannot be confined by the magnetic bottle. Ensuring that the reactor wall can cope with being bombarded by these neutrons presents a further challenge.

The costs involved are immense. The budget for ITER involves spending $5 billion on construction, $5 billion on operating costs over 20 years and more than $1 billion on decommissioning. Yet the reason why taxpayers should spend such sums is unclear. The world is not short of energy. Climate change can be addressed without recourse to generating power from fusion since there are already many alternatives to fossil-fuel power plants. And $12 billion could buy an awful lot of research into those alternatives.

Part of the reason why commercial fusion reactors have always been 30 years away is that increasing the size of the reactors to something big enough to be a power plant proved harder than foreseen. But fusion aficionados also blame a lack of urgency for the slow progress, claiming that at least 15 years have been lost because of delays in decision-making and what they regard as inadequate funding.

There is some truth in this argument. ITER is a joint project between America, most of the European Union, Japan, China, Russia and South Korea. For the past 18 months, work was at a standstill while the member states wrangled over where to site the reactor in what was generally recognised as a proxy for the debate over the war in Iraq. America was thought to support the placing of ITER in Japan in return for Japan's support in that war. Meanwhile, the Russians and Chinese were supporting France which, like them, opposed the American-led invasion. That France was eventually chosen owes much to the fact that the European Union promised to support a suitable Japanese candidate as the next director general of ITER.

Like the International Space Station, ITER had its origins in the superpower politics of the 1980s that brought the cold war to its end as Russia and the West groped around for things they could collaborate on. Like the International Space Station, therefore, ITER is at bottom a political animal. And, like the International Space Station, the scientific reasons for developing it are almost non-existent. They cannot justify the price.

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Church, state and the courts in America

But whose law should prevail?

Jun 30th 2005
From The Economist print edition

Corbis

The church-state divide may once again be about to dominate American politics. Prepare for a summer of deep discussions by reading this useful new guide

"CONGRESS shall make no law respecting an establishment of religion or prohibiting the free exercise thereof." What could be simpler than the First Amendment? Quite a lot of things, it seems, judging by this week's Supreme Court decision. It is fine to display the Ten Commandments on government land, but displaying them inside a courthouse violates the separation of church and state.

Such seemingly arbitrary distinctions are typical of the tortured church-state divide in America. The legality of Christmas cribs on government property can be reduced, crudely, to the "plastic reindeer rule". A reindeerless crib endorses Christianity; one with them (and preferably a Santa as well) is all right.

More than ever, America seems to be a country "divided by God", to borrow the title of Noah Feldman's new book. Americans are split, not between believers and non-believers (virtually all of them are in the first camp), but between two groups who disagree about the role of religion in the public square: "legal secularists", who want the law to make government Godless, and "values evangelicals", who insist that religion is relevant to political life.

Zealots on both sides claim that the past supports their case. This book is an admirable attempt to provide a more even-handed history. It duly bashes both sides, though, interestingly, the secularists often emerge as the worse re-inventors.

Divided by God: America's Church-State Problem—And What We Should Do About It
By Noah Feldman

Farrer, Straus & Giroux; 306 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Take, for instance, that first amendment. Far from wanting to keep God out of politics, as many liberals now claim, the basic aim of the founders was to keep politics out of religion (and to protect liberty of conscience). Thanksgiving Day was ushered in by George Washington in appropriately God-fearing tones

in 1789; nine years later, his successor, John Adams, called for a day of fasting and prayer before God.

The first sign of secularism in American politics came in the late 19th century, largely to camouflage sectarian anti-Catholicism. Nobody objected to public schools teaching the Bible—indeed politicians would have been horrified by any school that did not—as long as it was the Protestant version. When Irish immigrants wanted to use their Catholic version, the Republicans came up with a series of crafty provisions to ban public money from helping teach popish nonsense.

Until the 1950s, America seemed pretty happy with faith being part of government life. “We are a religious people, whose institutions presuppose a Supreme Being,” the Supreme Court said in 1952. Many school days began with a prayer, everybody said “Merry Christmas”. Yet a decade later, school prayer was deemed to be unconstitutional and the court was claiming that the constitution required government to act in a secular way.

Mr Feldman offers plenty of material for conservative Christians who have long maintained this was the moment when the court over-reached; but he also offers a more complex explanation than mere liberal hubris. The court was being asked all sorts of questions about the rights of minorities. It was also a time when many Americans started to pay more attention to the feelings of non-Christians in their midst, especially Jews. Perversely, America's religiosity actually helped secularists; nobody felt religion was under threat.

The religious right tends to argue that it has all been downhill since then, while Mr Feldman insists the picture is more complicated. Secularism has advanced when it comes to public displays of religion (give or take the odd reindeer). But evangelicals, newly mobilised, have successfully defined themselves as a minority whose rights need to be protected. And they have pushed the courts into allowing more government money to support religious activities: the Supreme Court has sanctioned vouchers to be used at religious schools.

This awkward balance between the state financing of the sacred (good) and allowing displays of it (bad) owes much to Sandra Day O'Connor, the swing voter on religious issues—and one of the justices who may soon retire. Mr Feldman over-reaches himself a little at the end, when he enters the fray to suggest that Ms O'Connor has it the wrong way round: public displays should be more widely tolerated and public money more circumscribed. It would have been better to have let readers draw their own conclusions. But that is a small quibble about an elegant and fair primer on a contentious issue.

Divided by God: America's Church-State Problem—And What We Should Do About It.
By Noah Feldman.
Farrar, Straus andGiroux; 306 pages; $25

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America and Iraq

Optimism overthrown

Jun 30th 2005
From The Economist print edition

MUCH of the Bush administration, the Republican majority in Congress and parts of the American news media still harbour a hope that the overthrow of Saddam Hussein will lead to the establishment of democracy and peace in Iraq. No such optimism, to judge by three recent books, pervades the world of more-or-less academic experts.

Larry Diamond was asked by Condoleezza Rice, a former colleague at Stanford University, to advise the Coalition Provisional Authority (CPA) in Baghdad on how to develop democracy. His conclusions, sadly, are banal. The best he has to say in "Squandered Victory" is that "from the soggy soil of political pluralism and power sharing, and with continued international support, a genuine democracy could gradually emerge."

David Phillips was sent to Baghdad as a former member of the State Department's Democratic Principles Working Group on the Future of Iraq. He is bitterly critical of the civilian leadership of the Pentagon and of the CPA's leader, Paul Bremer, in particular, for dismantling the Iraq army and the civilian administration. "Losing Iraq" has much interesting detail about the post-war administration in Baghdad and the machinations of America's former ally, Ahmed Chalabi, but it also resounds with the unmistakable sound of bureaucratic scores being settled.

By contrast, William Polk's book, "Understanding Iraq", is a study of the *longue durée* of Iraqi history. Mr Polk's learning—he speaks Arabic and Turkish, taught Arabic and Middle Eastern history at Harvard University and the University of Chicago and served on the State Department's policy planning staff—allows him to delve deep into Iraq's history, making this by far the most absorbing and disturbing of the many recent books about the country.

Mr Polk traces different characteristics of Iraqi society to its Babylonian and Assyrian despots, to the clash between Arabian and Persian elements in the early decades of Islamic rule and to the Mongol invasion in the 13th century. He is unsparing in his criticisms of British rule in Iraq and sees some parallels with recent American policy. Britain invaded Iraq after the break-up of the Ottoman empire in 1918 out of a sense of panic about the dangers for India of pan-Islamic upheaval. It used aircraft and poison gas to subdue insurgents while taking land from the peasants and handing it to urban entrepreneurs. Not much attention was paid to the new nation itself; indeed, Winston Churchill is glimpsed asking his officials to explain the Sunni and the Shia: "I always get mixed up between these two."

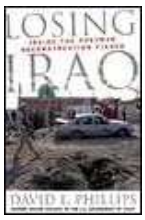
Mr Polk analyses the various strands of nationalism that make up what he calls "revolutionary Iraq" and examines the persistent influence of Iraq's army officers. More controversially, he has looked in some detail at the declassified documents describing Donald Rumsfeld's meetings with Saddam in 1983. (Mr Rumsfeld had served in various positions in the Ford and Nixon administrations, including as President Ford's defence secretary, and at the time was the head of G.D. Searle, a multinational pharmaceutical company.)

Squandered Victory: The American Occupation and Bungled Effort to Bring Democracy to Iraq
By Larry Diamond

Times Books; 369 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Losing Iraq: Inside the Postwar Reconstruction Fiasco
By David L. Phillips



Westview Press; 265 pages; $25. Basic Books; £16.99

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Amazon.co.uk

Understanding Iraq: The Whole Sweep of Iraqi History, from Genghis Khan's Mongols to the

In December 1983 President Reagan despatched Mr Rumsfeld as his envoy to various Middle Eastern capitals, including Baghdad. The president instructed Mr Rumsfeld and other American officials to do whatever was “necessary and legal” to prevent Iraq losing the war with Iran out of fear that Iran and its Shia allies in Iraq and the eastern province of Saudi Arabia would dominate the distribution of Middle East oil. As part of this effort, Mr Polk claims, America later supplied or arranged for others to supply Saddam with cluster bombs, chemicals and components for nuclear weapons, and equipment to manufacture poison gas.

The thrust of Mr Polk's history lesson is not gentle: America is blundering in Iraq out of historical ignorance. “Staying the course”, as President Bush has promised, “can only be a temporary measure”; it could cost 5,000 American and 40,000 Iraqi lives. “The safety and health of American society as well as Iraqi society,” he believes, require that America should leave Iraq “intelligently, determinedly and soon” before it has defeat thrust upon it.

The message is unlikely to win many converts in Washington, but it has the authority that comes from formidable knowledge and understanding of a far-away country which, so far, has proved all too complex and intractable.

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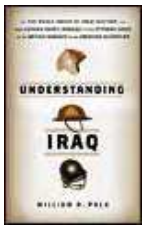
By William R. Polk.
HarperCollins; 221 pages; $22.95. To be published in Britain by I.B. Tauris in September

Ottoman Turks to the British Mandate to the American Occupation
By William R. Polk



HarperCollins; 221 pages; $22.95. To be published in Britain by I.B. Tauris in September

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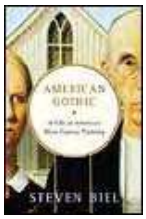
American icon

Art of the heartland

Jun 30th 2005
From The Economist print edition

IT IS at once an icon and an iconoclastic image of Bible-belt America. Virtually everyone who has seen the painting of the hatchet-faced farmer holding his pitchfork that hangs in the Art Institute of Chicago (or the altered version that appears in the opening sequence of “Desperate Housewives”) will recognise it as a famous picture. Few, however, will remember that its proper title is “American Gothic” and fewer still can recall the name of the man who painted it as Grant Wood. In this ingenious gem of a book, Stephen Biel, a professor of art history at Harvard University, weaves together a rich cultural history of this unforgettable picture and asks why it has become, for better or for worse, America's most popular painting.

American Gothic: A Life of America's Most Famous Painting
By Steven Biel



Norton; 160 pages; $21.95 and Â£13.99

Buy it at
Amazon.com
Amazon.co.uk

Surprisingly for a work that appears to invoke old-fashioned values, “American Gothic” met with a mixed reception when it was first unveiled in 1930. Locals saw the strait-laced Iowa couple as an insulting parody of their provincialism. Farmers' wives complained that it portrayed small-town women as prim, self-righteous and out of fashion with modern times.

At a time when the Scopes “monkey” trial, which upheld the teaching of evolution in schools, was still fresh in people's minds, some noted in the mid-western man's ape-like features a reference to the primitive missing link. Urban sophisticates loved it, of course, precisely because they saw it as a parody. No less a critic than H.L. Mencken praised this portrait of the “booboisie” as an attack on the philistinism and puritanism he thought was running rife in middle America. But by 1943, H.W. Janson, a well-known art historian, was deriding the work as promoting an isolationist fiction of rural purity and self-sufficiency. A refugee from Nazi Europe, Janson called it anti-art and compared its agrarian idealism to fascist social realism of the Third Reich.

Throughout the intervening years, “American Gothic” has been seen alternately as an emblem of the honest, self-reliant, hard-working values of the small town and as a lampoon. Both “The Music Man”, a Broadway musical, and “The Rocky Horror Picture Show” turned the austere couple into a singing, dancing slice of middle America—for very different purposes. After the September 11th attacks, the *New Yorker* magazine ran a cartoon with the stony-faced pair wearing “I love NY” T-shirts, expressing an urban ambivalence at New Yorkers' sudden adoption by the heartland.

The artist himself never gave much away, insisting that the work was not meant as a satire and that he was painting mid-western types rather than individuals. “American Gothic”, he said, was not a portrait: Wood had merely asked his sister Nan and the local dentist to pose for him, dressing them up and adapting their faces into a stylised, anonymous image of a man and his daughter who would fit into the now famous clapboard house in Eldon, Iowa. To Wood, who died in 1942 at the age of only 51, the most important thing about the painting was “whether or not these faces are true to American life and reveal something about it”.

In art historical terms, “American Gothic” might also be seen as Wood's regionalist manifesto: “there's no place like home”. Like his fellow mid-westerner, Dorothy in “The Wizard of Oz”, Wood had journeyed “over the rainbow”. He had lived in Paris three times during the 1920s, and travelled through Europe before returning to find art in his native state of Iowa. Perhaps in the grim, unflattering expressions of his sitters we can also see traces of the Flemish Renaissance master Hans Memling, whom he admired, as well as the eerie realism of Weimar Germany's “New Objectivity” painters, grafted on to a mid-western homestead.

In cultural terms, Wood's masterpiece is harder to read. It is both wholesome and creepy; both American and Gothic. The longer you look at this stark image, the more it defies the possibility of being read at face value. Rather than celebrate traditional American values, it complicates them. Mr Biel's book is a study of how the heartland we see here came to represent America. It is also a salient reminder of how a work of art can say so much to so many in the strangest and most unlikely of circumstances.

American Gothic: A Life of America's Most Famous Painting.
By Steven Biel.
Norton; 160 pages; $21.95 and £13.99

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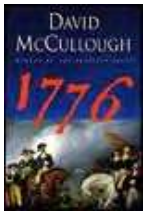
American history

Independence day

Jun 30th 2005
From The Economist print edition

1776
By David McCullough



Simon & Schuster; 386 pages; $32.
Penguin/Allen Lane; 386 pages; £25.

Buy it at
Amazon.com
Amazon.co.uk

AS VINTAGE years go, 1776 turned out to be a corker. But it very nearly wasn't, as David McCullough shows in his new portrait of an historical hinge.

The year had begun well for the rebels. In March, under General George Washington, they forced the British to evacuate nearly 9,000 royal troops from Boston. But then in July, in the largest projection of seaborne power yet attempted by a European state, more than 100 ships carrying 23,000 British regulars and 10,000 German mercenaries sailed into New York harbour. The result was predictable.

The British began by pummelling the rebel forces on Long Island and Manhattan. Washington showed his determination by recommending that New York be burned down to deny it to the enemy. Congress demurred, demonstrating at this early stage—even before there ever was a United States—that civilian control should prevail over military voices.

As Washington's army fled across New Jersey, death, capture and desertion reduced his force by 90%. After the retreat across the Delaware River into Pennsylvania, a successful British assault on Philadelphia, the home of the Congress, seemed inevitable. Congress fled to Baltimore. Meanwhile, New Jersey residents began shifting allegiance, with many, including one who had so recently signed the Declaration of Independence, accepting the British offer of a full pardon. The rebellion looked as though it might be snuffed out—with little more historical impact than the rising of the Scots under Bonnie Prince Charlie in 1745.

Then, on Christmas Day, in weather so cold that two of his men froze to death, Washington re-crossed the Delaware River, beating the Hessians (who, contrary to myth, were not drunk but fought like the professionals they were) at Trenton, New Jersey. Victories followed at a second battle of Trenton and at Princeton. The war would continue.

Mr McCullough, a popular two-time winner of the Pulitzer prize and the National Book Award, tells the tale of the reverses of 1776 with all the panache of his earlier books on Harry Truman and on the building of the Panama Canal. His hero is Washington who, when he arrived in New England, found the Yankees “exceedingly dirty and nasty” with an “unaccountable kind of stupidity in the lower class” which “prevails but too generally among the officers.” Washington learned his lesson well. Colonel Henry Knox, a Boston bookseller, became one of his closest advisers, performing magnificently as artillery commander and later serving Washington as the president's first secretary of war.

Although “1776” is a fine book, it is, in almost every respect, inferior to David Hackett Fischer's “Washington Crossing”, which was published last year and which has just earned the Pulitzer prize for history. Mr Fischer, a professor of history at Brandeis University, is Mr McCullough's equal as a writer but superior in capturing the full historical picture. He fully demonstrates something Mr McCullough ignores: notably the impact of British atrocities—rape, execution and pillage—on the people of New Jersey. The stress caused by the guerrilla warfare in which the locals engaged was a key factor in the subsequent British defeat.

Under the laws of war, a captured soldier could be executed. British soldiers were not committing war crimes when they dashed out the brains of Virginia infantry who had attempted to surrender.

Washington's policy was different and of topical interest. In America's time of extreme peril, he ordered

a colonel to protect hundreds of prisoners taken after Princeton: “Treat them with humanity and let them have no reason to complain of our copying the brutal example of the British army in their treatment of our unfortunate brethren.” At the end of the war, 23% of the German mercenaries chose to remain in America and others later emigrated with their families. Going beyond the legal minimum can pay off.

1776.
By David McCullough.
Simon & Schuster; 386 pages; $32. Penguin/Allen Lane; £25

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New fiction

Same world, separate spheres

Jun 30th 2005
From The Economist print edition

THERE has been a mini-vogue recently in “novels” formed from separate stories, each picking up some of the same elements and carrying the same thematic ball. In “Specimen Days”, Michael Cunningham's three novellas are better integrated than the disjointed tales in David Mitchell's 2004 bestseller, “Cloud Atlas”. But the novel bats only two out of three. The first section is eerie and distinguished. The second is charming. The third stinks.

Each novella begins in the same New York neighbourhood. Each is permeated with explosions of Walt Whitman; one character blurts out quotes from “Leaves of Grass” as if afflicted by a lyrical Tourette's syndrome. Mr Cunningham submits that Whitman's life-long work is America's “national anthem”, appropriating for his own the poet's themes that there “are no insignificant lives” and that all matter, living and dead, is connected.

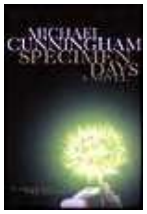
“In the Machine” follows a 13-year-old immigrant's son, a cog in the wheel of the industrial revolution. The kid is not quite right in the head. However, prescience leads him to lure his beloved from the factory where she sews, just before it bursts into flames. Mr Cunningham's depiction of the famous garment-district fire, during which, dresses alight, women threw themselves from upper floors, elegantly echoes September 11th down to the taste of the air (“the dead had entered the atmosphere”).

In “The Children's Crusade”, a black policewoman deals with the sort of people who “have discovered that the cracks on the sidewalk between Broadway and Lafayette spell out the names of aliens who are posing as world leaders.” Her quest to track down a family of child-terrorists is full of dry, savvy lines, and Mr Cunningham's ending is lovely. By contrast, “Like Beauty”, 150 years hence, when the earth is overrun with aliens from outer space, feels distinctly derivative of the sci-fi section in “Cloud Atlas”, which itself felt derivative. Trying sometimes too hard to be clever and degenerating into the literary equivalent of the strange-bedfellows buddy-flick, this cheaper offering does not do much to sponsor the author's talents.

The nice thing about his structure is that one can cherry-pick. Pluck the first two. Leave the third on the tree.

Specimen Days.
By Michael Cunningham.
Farrar, Straus and Giroux; 308 pages; $25. To be published in Britain by Fourth Estate in August

Specimen Days
By Michael Cunningham



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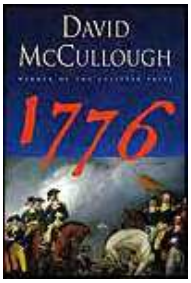
Amazon worldwide bestsellers

The big book index

Jun 30th 2005
From The Economist print edition

The bestselling history titles in June



IT'S a bumper season for history buffs this summer. Not only do Jared Diamond, Sun Tzu and the *Washington Post* duo, Carl Bernstein and Bob Woodward, return with their classics; there are new offerings on Mao, British landscape painting, Africa, the Holy Grail and 1776.

1. 1776.
By David McCullough. *Simon & Schuster; 386 pages; $32. Penguin/Allen Lane; £25.*

A corker of a year that so nearly wasn't. David McCullough, biographer of Truman and the Panama Canal, traces the rise and fall and rise of George Washington's rebel forces, and explains how, despite the forces stacked against them, they came to win the day and make history.

Click here to buy from Amazon.com or Amazon.co.uk

2. Mao: The Unknown Story.
By Jung Chang and Jon Halliday. *Knopf; 832 pages; $35. Jonathan Cape; £25.*

A blistering portrait of the Chinese leader by the author of the bestselling Wild Swans.

Click here to buy from Amazon.com or Amazon.co.uk

3. Collapse: How Societies Choose to Fail or Succeed.
By Jared Diamond. *Viking Adult; 592 pages; $29.95. Penguin/Allen Lane; £20.*

An exploration of why societies fail because of long-term environmental factors, rather than short-term political ones.

Click here to buy from Amazon.com or Amazon.co.uk

4. Guns, Germs, and Steel: The Fates of Human Societies.
By Jared Diamond. *Norton; 480 pages; $16.95. Vintage; £8.99.*

An earlier long view of what leads to the rise of civilisations by the University of California's most famous geographer.

Click here to buy from Amazon.com or Amazon.co.uk

5. The Devil in the White City: Murder, Magic, and Madness at the Fair that Changed America.
By Erik Larson. *Vintage; 464 pages; $14.95.*

The dark side of 19th-century Chicago is brought to life in a dual portrait of the architect of the 1893 World's Fair and the serial killer who stalked his victims at the fair.

Click here to buy from Amazon.com or Amazon.co.uk

6. A People's History of the United States: 1492-Present.
By Howard Zinn. *Perennial; 752 pages; $25.95. Longman; £18.95.*

Blacks, women, American Indians, war resisters and poor labourers all find their voice in this elegant narrative.

Click here to buy from Amazon.com or Amazon.co.uk

7. All the President's Men.
By Carl Bernstein and Bob Woodward. *Simon & Schuster; 352 pages; $14. Bloomsbury; £8.99.*

The naming of Deep Throat, 30 years on, revives a classic about the Nixon era.

Click here to buy from Amazon.com or Amazon.co.uk

8. A History of the World in Six Glasses.
By Tom Standage. *Walker & Co; 240 pages; $25.*

How beer, wine, spirits, coffee, tea and Coca-Cola made the modern world, by *The Economist*'s technology editor.

Click here to buy from Amazon.com or Amazon.co.uk

9. His Excellency: George Washington.
By Joseph J. Ellis. *Knopf; 352 pages; $26.95.*

An emotional portrait of the icon that most Americans know only from dollar bills, quarters and Mount Rushmore.

Click here to buy from Amazon.com or Amazon.co.uk

10. Holy Blood, Holy Grail.
By Michael Baigent, Richard Leigh and Henry Lincoln. *Dell; 496 pages; $7.99. Arrow; £8.99.*

Jesus may not have died on the cross, but lived to marry and father children.

Click here to buy from Amazon.com or Amazon.co.uk

11. Lies My Teacher Told Me: Everything Your American History Textbook Got Wrong.
By James W. Loewen.

A critique of 12 American history texts currently used in schools bewails a long train of omissions and distortions.

Click here to buy from Amazon.com or Amazon.co.uk

12. The Art of War.
By Sun Tzu. *Dover Publications; 96 pages; $4.95. Penguin Books; £3.99.*

History's greatest military strategist advises how to overcome every adversary in war, at the office or in everyday life.

Click here to buy from Amazon.com or Amazon.co.uk

13. The State of Africa: A History of Fifty Years of Independence.
By Martin Meredith. *Free Press; 768 pages; £20.*

A highly readable digest of half a century of woes in the cradle of mankind.

Click here to buy from Amazon.co.uk

14. Shooter: The Autobiography of the Top-Ranked Marine Sniper.
By Jack Coughlin, Casey Kuhlman and Donald A. Davis. *St Martin's Press; 320 pages; $24.95.*

The Marine Corps' best sniper describes life on and off the modern battlefield.

Click here to buy from Amazon.com or Amazon.co.uk

15. A Picture of Britain.

By David Dimbleby. *Tate Publishing; 224 pages; £19.99.*

A celebration of the British landscape and the art that it has inspired, from Constable and Turner to Lowry and Nash.

Click here to buy from Amazon.co.uk

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp, from June 1st to June 27th 2005. Prices are quoted from Amazon.com and Amazon.co.uk, as of June 27th.

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Economist.com PRINT EDITION OBITURY

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Obituary

Cardinal Sin

Jun 30th 2005
From The Economist print edition

AFP

Jaime Cardinal Sin, a political archbishop, died on June 21st, aged 76

ON THE evening of February 25th 1986, thousands of people swarmed into the Malacañang palace in Manila. The former occupants, Ferdinand and Imelda Marcos, late dictatorial rulers of the Philippines, had fled away to Hawaii. The mob forced open their cupboards; and out cascaded not gold, or skeletons, but 1,220 pairs of high-fashion brand-new shoes.

The discovery of the shoes, the invasion of the palace and the departure of the Marcoses had all been sparked by a chubby, twinkly, brandy-loving priest. On February 22nd, Jaime Cardinal Sin, broadcasting on the church-owned Radio Veritas, had summoned the people to rally on Epifanio de los Santos Avenue to protect 300 rebels in the army barracks there. He had called especially on “his” flock, priests and nuns. When Marcos sent the tanks in, he found them facing the unassailable: ranks of clergy, praying.

Cardinal Sin's association with “people power” that could overturn governments was something he was modest about. In truth, he had fallen out with the Marcoses rather slowly. The Catholic church in the Philippines, charged with 40m often impoverished souls, was split between a wing that favoured authoritarian regimes and one that toyed with backing communist guerrillas in the Cordillera, and he was in neither pack. As a priest from the provinces, unsophisticated and with rudimentary Latin, his appointment as archbishop of Manila in 1974 had been a surprise to the rest of the episcopate. His name, too—as he freely admitted, loving to joke about it—suggested unlimited romps in the sacristy. At first, he watched his step.

Yet priests had always dabbled in politics in the Philippines. Indeed, under the Spaniards, missionising friars had run the place. In this archipelago of hundreds of islands, the church was a rare centralising and unifying force. Besides, Archbishop Sin—by 1976, cardinal—was too irrepressible to keep quiet for long. First came a pastoral letter denouncing a raid on a seminary by Marcos's troops, looking for communists. Then came advice to Imelda to curb her lifestyle. (The cardinal openly portrayed her as “the mining industry”, pointing to anything she fancied and shouting “That's mine!”) On one stony, bumpy ride with the couple in their limousine, he told them he was “being crucified between two thieves”. By the 1986 elections, Cardinal Sin was advising the Marcoses that ballot fraud would be “unforgivable”. The fraud happened anyway, and he made his famous broadcast.

The terrific success of that rallying call gave him a taste for mobilising crowds. He brought them out again, in 1997 and 1999, against attempts to amend the constitution. And in 2001 he was at the forefront of street protests that dislodged Joseph Estrada, a lounge-lizard president renowned for his gambling and his mistresses, for corruption. To the Vatican's mild protests, Cardinal Sin replied that to be engaged in politics was no more immoral than boxing. He was “correcting” his people, and thereby doing his duty as a priest.

Others disagreed. The cardinal, though robed as a Good Shepherd, often seemed a wheeler-dealer in best Philippine style. Ever since the assassination of Benigno Aquino, the chief opposition leader, in 1983, he had been close to the Aquino family: so close that when Benigno's widow, Corazon, became president in the wake of Marcos, Cardinal Sin led a chant of “Co-ry! Co-ry!” from his pulpit. It all looked rather like a coup in her favour.

His overthrow of Mr Estrada was much more disturbing, summarily reversing the result of a landslide popular vote. Mr Estrada's supporters, chiefly the poor, condemned the cardinal and rioted in protest. In some shame, he apologised to them. The president he had helped to power, Gloria Arroyo, clung closely to him (see above), but has never quite acquired the legitimacy she wanted. “People power” has poisoned Philippine politics.

The Vatican might have rebuked him more, had he not proved in other ways so loyal to church teaching. He opposed artificial birth control in all its forms, and first crossed swords with Mrs Marcos over the sale of condoms in corner shops. One of his biggest rallies, in 1994, was against state efforts to bring down the population growth rate, which at nearly 2% a year is among the highest in East Asia.

A deal with Our Lady

He himself was the 14th of 16 children, of whom seven had died because of “poison”, as the story went, in his mother's milk. He used to boast, roaring with laughter, that he had been brought up on Carnation milk out of the tin. As a child, he was so sickly, ugly and asthmatic that the seminary was probably the only place for him. It was hard to imagine him, like his Chinese father, living a merchant's life.

While in priestly training, moving from *barrio* to *barrio* to escape Japanese bombing during the second world war, he made a deal with Our Lady of the Miraculous Medal; if she would cure his asthma, he would stay and be a priest. The asthma vanished. Our Lady remained, at the core of his politics. During the tense days of late February 1986, as Marcos's tanks moved in, Cardinal Sin was making his most urgent appeals not to the people, but to her. “Never in my life”, he said later, “did I pray so much.”

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Overview

Jun 30th 2005
From The Economist print edition

The **oil price** broke through $60 a barrel for the first time, reaching a high of $60.95 on June 27th. The rise reflected jitters about the impact of the presidential election in Iran, one of the world's main oil producers. However, the price subsequently fell back, declining below $58 on June 29th after an unexpected increase in American crude-oil inventories.

America's economy did better in the first three months of the year than previously estimated. GDP growth in the first quarter was revised up to an annual rate of 3.8%. Short-term prospects may also be brighter. Consumer confidence rose to a three-year high in June. The Conference Board, which compiles the index, thinks that this improvement will bolster business activity and the labour market over the next few months.

Despite big monthly falls in both industrial production and retail sales in **Japan**, the underlying picture looks more robust. Industrial output fell in May by 2.3% but was 0.9% higher than a year before. The value of retail sales dropped by 1.5% in May but was 2.7% higher than a year before.

In **Germany**, businessmen's animal spirits may be stirring. After falling for four consecutive months, the Ifo business-climate survey rose in June. Firms thought that current business conditions had got a bit better and were more optimistic about the next six months. However, German consumers have become more pessimistic, according to the GfK index for July, which fell for the third consecutive month.

Elsewhere in the euro area, there were mixed signals. **France's** businessmen became perkier in June according to INSEE's survey of sentiment among manufacturers, but **Italy's** businessmen grew more pessimistic amid the country's struggling economy, according to the ISAE survey of confidence.

In **Britain**, GDP growth in the year to the first quarter was revised down from 2.7% to 2.1%. A survey by the Confederation of British Industry indicated that retail sales declined sharply in the year to June: the fall was the steepest in the 22-year history of the survey. The survey suggests that the consumer slowdown, linked to the downturn in the housing market, is continuing. However, the number of new loans for buying houses rose slightly in May, indicating that the housing market may be stabilising.

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Output, demand and jobs

Jun 30th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q1	+ 2.8	+ 2.6	+ 3.2	– 0.4	Q4	+ 1.8	Q1	5.1	May	5.5
Austria	+ 2.0	Q1	+ 0.8	+ 2.0	+ 2.0	+ 3.2	Apr	+ 3.2	Mar	4.6	May	4.4
Belgium	+ 1.8	Q1	– 0.1	+ 1.6	+ 2.1	– 1.5	Apr	+ 3.4	Mar	12.2	May†	12.3
Britain	+ 2.1	Q1	+ 1.6	+ 2.4	+ 2.1	– 1.9	Apr	+ 1.3	May	4.7	Apr††	4.8
Canada	+ 3.3	Q1	+ 2.3	+ 2.6	+ 2.9	+ 1.3	Mar	+ 4.0	Mar	6.8	May	7.1
Denmark	+ 0.8	Q1	+ 0.6	+ 2.1	+ 2.2	– 2.4	Apr	+ 8.2	Apr	5.9	Apr	6.5
France	+ 1.8	Q1	+ 1.4	+ 1.8	+ 2.0	nil	Apr	+ 1.0	Apr	10.2	May	10.0
Germany	+ 1.1	Q1	+ 4.2	+ 1.1	+ 1.4	+ 2.0	Apr	nil	Mar	11.7	Jun§	10.5
Italy	– 0.2	Q1	– 1.8	+ 0.3	+ 1.3	+ 0.8	Apr	+ 1.2	Mar	8.0	Dec	8.2
Japan	+ 1.3	Q1	+ 4.9	+ 1.4	+ 1.8	+ 0.9	May	+ 3.6	Apr	4.4	Apr	4.7
Netherlands	– 0.3	Q1	– 0.6	+ 0.8	+ 1.6	– 0.7	Apr	+ 0.6	Mar	6.6	May**	6.5
Spain	+ 3.3	Q1	+ 3.5	+ 2.8	+ 2.7	+ 7.1	Apr	+ 3.0	Apr	10.0	Apr	11.2
Sweden	+ 1.4	Q1	+ 1.1	+ 2.8	+ 2.8	– 2.1	Apr	+ 4.8	May	5.2	May†	5.7
Switzerland	+ 0.8	Q1	+ 0.2	+ 1.2	+ 1.7	– 0.3	Q1	+ 2.7	Apr	3.7	May†	3.8
United States	+ 3.7	Q1	+ 3.8	+ 3.5	+ 3.2	+ 2.7	May	+ 5.3	Apr	5.1	May	5.6
Euro area	+ 1.3	Q1	+ 2.0	+ 1.4	+ 1.8	+ 0.9	Apr	– 0.9	Apr	8.9	Apr	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.0	Q1	+ 0.5	na	na	– 7.5	May	+ 6.4	Apr	10.2	May†	11.6
Greece	+ 3.5	Q1	na	na	na	– 3.2	Apr	+ 7.1	Mar	10.2	Dec	9.8
Iceland	+ 2.9	Q1	na	na	na	na		na		2.3	Apr†	3.5
Ireland	+ 2.8	Q4	na	na	na	– 6.4	Apr	+ 3.9	Apr	4.2	May	4.6
Luxembourg	+ 3.8	Q4	na	na	na	+ 2.4	Mar	– 3.1	Apr	4.6	Apr	4.2
New Zealand	+ 1.9	Q1	+ 1.5	na	na	+ 3.5	Q4	+ 5.8	Q1	3.9	Q1	4.2
Norway	– 0.8	Q1	+ 2.2	na	na	+ 4.0	Apr	+ 8.5	Apr	4.6	May**	4.3
Portugal	+ 0.1	Q1	+ 0.8	na	na	+ 0.7	Apr	+ 2.0	Apr	7.5	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Feb-Apr; claimant count rate 2.7% in May.
§EU harmonised rate 9.3% in May. **Mar-May.

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Prices and wages

Jun 30th 2005
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2005	2006	latest	year ago	latest	year ago
Australia	+ 2.4 Q1	+ 2.0	+ 2.6	+ 2.6	+ 6.0 Q1	– 1.1	+ 4.5 Q1	+ 5.0
Austria	+ 2.3 May	+ 2.1	+ 2.1	+ 1.6	+ 1.3 May	+ 6.1	+ 2.3 May	+ 2.1
Belgium	+ 2.9 Jun	+ 2.3	+ 2.0	+ 1.7	+ 2.4 May	+ 3.9	+ 2.6 Apr	+ 2.3
Britain	+ 1.9 May*	+ 1.5	+ 1.9	+ 1.9	+ 2.7 May	+ 2.5	+ 4.6 Apr†	+ 4.4
Canada	+ 1.6 May	+ 2.5	+ 2.1	+ 2.1	+ 1.5 Apr	+ 2.3	+ 3.1 Apr	+ 3.3
Denmark	+ 1.5 May	+ 1.3	+ 1.4	+ 1.7	+ 3.0 May	+ 2.8	+ 3.1 Q1	+ 3.3
France	+ 1.5 May	+ 2.6	+ 1.6	+ 1.6	+ 2.4 May	+ 2.2	+ 2.9 Q1	+ 2.8
Germany	+ 1.9 Jun	+ 1.7	+ 1.4	+ 1.0	+ 1.7 May	+ 3.6	+ 1.6 Apr	+ 1.1
Italy	+ 1.9 May	+ 2.3	+ 1.9	+ 1.8	+ 4.4 Apr	+ 1.7	+ 3.1 May	+ 3.3
Japan	nil Apr	– 0.4	– 0.1	+ 0.3	+ 1.8 May	+ 0.9	+ 0.5 Apr	+ 1.2
Netherlands	+ 1.3 May	+ 1.5	+ 1.4	+ 0.6	+ 4.7 Apr	+ 2.3	+ 0.6 May	+ 1.5
Spain	+ 3.1 May	+ 3.4	+ 2.9	+ 2.7	+ 5.0 Apr	+ 2.6	+ 3.0 Q1	+ 3.2
Sweden	+ 0.1 May	+ 0.7	+ 0.7	+ 1.5	+ 2.7 Apr	– 0.2	+ 4.2 Mar	+ 1.5
Switzerland	+ 0.7 Jun	+ 1.1	+ 1.2	+ 1.2	+ 0.5 May	+ 1.4	+ 0.9 2004	+ 1.4
United States	+ 2.8 May	+ 3.1	+ 2.9	+ 2.5	+ 3.5 May	+ 4.7	+ 2.6 May	+ 2.0
Euro area	+ 2.0 May	+ 2.5	+ 1.8	+ 1.5	+ 4.2 Apr	+ 1.4	+ 3.1 Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.8 May	– 0.1	na	na	+ 2.3 May	+ 1.7	+ 4.1 Q1	+ 4.2
Greece	+ 3.2 May	+ 2.9	na	na	+ 4.3 Apr	+ 4.6	na	na
Iceland	+ 2.8 Jun	+ 3.9	na	na	+ 4.2 Jun	+ 5.3	+ 6.6 May	+ 4.6
Ireland	+ 2.4 May	+ 1.7	na	na	– 2.2 May	– 0.1	+ 5.1 Q4	+ 4.5
Luxembourg	+ 2.4 May	+ 2.3	na	na	+ 8.9 Apr	+ 6.2	+ 1.8 Mar	+ 2.1
New Zealand	+ 2.8 Q1	+ 1.5	na	na	+ 4.2 Q1	– 0.6	+ 2.5 Q1	+ 2.2
Norway	+ 1.6 May	+ 1.0	na	na	+ 9.2 May	+18.8	+ 3.7 Q1	+ 3.5
Portugal	+ 1.8 May	+ 2.4	na	na	+ 3.9 May	+ 1.9	– 1.6 Apr	– 1.4

*RPI inflation rate 2.9% in May. †Feb-Apr.

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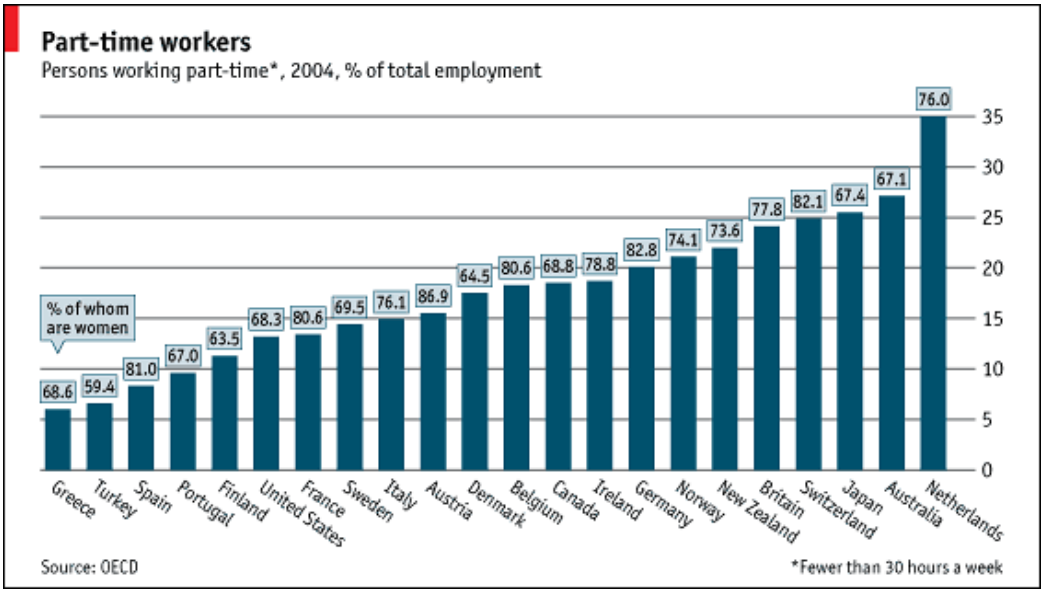
Part-time workers

Jun 30th 2005
From The Economist print edition



Part-time work is continuing to increase in importance in most developed economies. But its salience varies a lot. In the Netherlands it comprises 35% of total employment. This contrasts with shares of 13% in the United States and 6% in Greece. Despite these national differences, part-time jobs in all countries are generally the preserve of women, who account for 72% of part-time employment across the OECD.

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Money and interest rates

Jun 30th 2005
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	Money supply* % change on year ago			Interest rates % a year (Jun 29th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.4	+ 9.2	May	5.66	5.48	5.11	5.10	5.93	6.17
Britain	+ 4.3	+11.6	May	4.75	4.81	4.12	4.21	5.09	5.20
Canada	+10.3	+ 9.8	May	2.48	2.04	2.86	3.87	5.19	5.18
Denmark	+16.2	+ 9.0	May	2.20	2.25	2.02	3.10	4.42	4.90
Japan	+ 4.0	+ 1.5	May	0.02	0.02	0.06	1.15	1.76	1.29
Sweden	+ 2.5	+ 4.7	May	1.48	1.97	1.81	3.00	4.60	2.63
Switzerland	- 7.3	+ 2.3	May	0.75	0.50	0.87	1.96	2.85	1.95
United States	+ 2.7	+ 4.3	May	3.33	1.43	3.66	3.99	4.61	4.94
Euro area†	+10.1	+ 7.3	May	2.10	2.07	2.03	3.14	4.26	3.38

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.26%, Japan No. 270 1.18%. Central bank rates: US fed funds 3.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jun 30th 2005
From The Economist print edition

2000=100

	Jun 21st	Jun 28th*	% change on one month	% change on one year
Dollar index				
All items	137.2	133.4	– 0.1	+ 0.9
Food	133.5	128.8	– 1.4	– 3.4
Industrials				
All	142.0	139.4	+ 1.4	+ 6.5
Nfa†	131.2	131.9	+ 0.6	– 3.2
Metals	147.9	143.5	+ 1.9	+12.0
Sterling index				
All items	114.0	111.3	+ 0.1	+ 0.4
Euro index				
All items	104.6	102.1	+ 2.1	+ 1.2
Yen index				
All items	138.1	135.9	+ 1.7	+ 2.2
Gold				
$ per oz	437.05	436.45	+ 4.9	+10.8
West Texas Intermediate				
$ per barrel	58.68	58.25	+12.8	+63.6

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Jun 30th 2005
From The Economist print edition

Market indices

	Jun 29th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,216.6	4,267.3	3,905.5	– 0.4	– 1.2	+ 4.0	+ 1.1
Austria (ATX)	3,028.0	3,030.2	2,415.0	+ 0.7	– 0.1	+24.5	+10.6
Belgium (Bel 20)	3,112.1	3,197.3	2,958.8	– 0.8	–15.5	+ 6.1	– 5.8
Britain (FTSE 100)	5,109.1	5,114.4	4,783.6	+ 0.2	–26.3	+ 6.1	– 0.2
Canada (Toronto Composite)	10,029.3	10,051.5	9,006.2	– 0.2	–11.9	+ 8.5	+ 6.0
Denmark (KBX)	310.7	312.8	257.8	– 0.6	– 0.7	+20.5	+ 6.9
France (SBF 250)	2,937.5	2,942.5	2,633.6	nil	–33.1	+11.5	– 1.0
(CAC 40)	4,231.9	4,240.2	3,816.1	+ 0.1	–38.9	+10.7	– 1.7
Germany (DAX)*	4,583.6	4,627.5	4,178.1	– 0.8	–43.2	+ 7.7	– 4.4
Italy (S&P/MIB)	32,185.0	32,856.0	30,645.0	– 0.6	–35.8	+ 4.1	– 7.5
Japan (Nikkei 225)	11,577.4	11,966.7	10,825.4	+ 0.3	–70.3	+ 0.8	– 6.4
(Topix)	1,176.5	1,203.3	1,109.2	+ 0.3	–59.2	+ 2.3	– 4.9
Netherlands (AEX)	383.3	383.3	347.0	+ 0.3	–45.4	+10.1	– 2.2
Spain (Madrid SE)	1,053.7	1,053.7	950.9	+ 0.5	– 8.1	+ 9.9	– 2.4
Sweden (Affarsvarlden Gen)	247.2	248.7	218.9	+ 0.3	–38.2	+11.7	– 5.1
Switzerland (Swiss Market)	6,261.2	6,294.2	5,669.6	– 0.4	–25.6	+10.0	– 2.4
United States (DJIA)	10,374.5	10,940.6	10,012.4	– 2.0	–11.5	– 3.8	– 3.8
(S&P 500)	1,199.9	1,225.3	1,137.5	– 1.2	–21.4	– 1.0	– 1.0
(NASDAQ Comp)	2,068.9	2,152.2	1,904.2	– 1.1	–59.0	– 4.9	– 4.9
Europe (FTSEurofirst 300)†	1,143.9	1,150.9	1,038.6	– 0.2	–32.9	+ 9.8	– 2.5
Euro area (FTSE Euro 100)†	967.9	970.8	894.4	– 0.1	–37.6	+ 7.4	– 4.6
World (MSCI)‡	1,153.8	1,193.0	1,115.0	– 1.0	–20.4	– 1.3	– 1.3
World bond market (Citigroup)††	638.8	662.3	636.6	– 0.6	– 3.5	– 4.1	– 4.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jun 30th 2005
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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Jun 29th	year ago	Currency units per $ Jun 29th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.1	Apr	− 42.4	Q1	− 5.7	− 5.1	117.8	107.9	1.31	1.43	2.37	1.58	1.19	+ 0.9
Austria	+ 0.1	Apr	+ 0.6	Apr	− 0.5	− 0.6	104.8§	103.6	0.83	0.82	1.50	–	0.75	− 2.0
Belgium	+ 16.7	Mar	+ 12.0	Dec	+ 3.3	+ 3.3	105.5§	103.9	0.83	0.82	1.50	–	0.75	− 0.5
Britain	−109.9	Apr	− 49.0	Q4	− 2.5	− 2.5	100.8	101.3	0.55	0.55	–	0.67	0.50	− 2.9
Canada	+ 49.1	Apr	+ 20.2	Q1	+ 1.7	+ 1.5	117.8	107.7	1.23	1.34	2.21	1.48	1.11	+ 1.2
Denmark	+ 9.2	Apr	+ 8.6	Apr	+ 2.1	+ 2.1	105.7	105.9	6.17	6.11	11.1	7.45	5.59	+ 1.8
France	− 22.4	Apr	− 19.4	Apr	− 0.3	− 0.1	108.3§	106.4	0.83	0.82	1.50	–	0.75	− 3.0
Germany	+198.5	Apr	+108.0	Apr	+ 3.4	+ 3.2	106.2§	104.0	0.83	0.82	1.50	–	0.75	− 3.5
Italy	− 6.1	Apr	− 19.0	Apr	− 1.2	− 1.2	77.5§	76.2	0.83	0.82	1.50	–	0.75	− 4.4
Japan	+125.3	Apr	+170.9	Apr	+ 3.6	+ 3.6	87.0	88.0	110	109	199	133	–	− 6.1
Netherlands	+ 38.7	Apr	+ 33.9	Q1	+ 3.4	+ 3.4	105.0§	103.2	0.83	0.82	1.50	–	0.75	− 2.2
Spain	− 83.1	Mar	− 55.5	Feb	− 4.9	− 4.9	77.8§	76.9	0.83	0.82	1.50	–	0.75	+ 0.5
Sweden	+ 22.8	May	+ 29.7	Q1	+ 6.9	+ 6.3	94.5	98.0	7.83	7.53	14.1	9.45	7.09	+ 0.8
Switzerland	+ 6.6	May	+ 40.8	Q4	+11.1	+10.6	106.4	108.1	1.28	1.25	2.31	1.55	1.16	− 1.0
United States	−709.7	Apr	−717.0	Q1	− 6.3	− 6.2	85.9	87.3	–	–	1.80	1.21	0.91	− 4.1
Euro area	+ 69.0	Apr	+ 27.9	Apr	+ 0.5	+ 0.5	114.6	114.9	0.83	0.82	1.50	–	0.75	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.6	Apr	+ 11.8	Apr	na	na	82.4§	81.0	0.83	0.82	1.50	–	0.75	+ 1.3
Greece	− 33.0	Mar	− 11.6	Apr	na	na	60.4§	59.6	0.83	0.82	1.50	–	0.75	− 3.8
Iceland	− 0.7	Apr	− 1.4	Q1	na	na	105.7**	98.7	65.5	72.6	118	79.1	59.4	+ 1.1
Ireland	+ 40.6	Apr	− 0.8	Q4	na	na	95.9§	93.2	0.83	0.82	1.50	–	0.75	− 0.7
Luxembourg	− 4.3	Apr	+ 2.9	Q4	na	na	105.5§	103.9	0.83	0.82	1.50	–	0.75	− 0.8
New Zealand	− 3.4	May	− 7.0	Q1	na	na	136.9	125.9	1.43	1.58	2.58	1.73	1.30	+ 3.2
Norway	+ 41.9	May	+ 37.9	Q1	na	na	110.2	103.0	6.55	6.93	11.8	7.91	5.94	+ 14.4
Portugal	− 19.6	Mar	− 14.4	Apr	na	na	94.3**	94.0	0.83	0.82	1.50	–	0.75	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, April average. ‡OECD forecast. ††New series.
**IMF, February average.

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Foreign direct investment

Jun 30th 2005

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Overview

Jun 30th 2005
From The Economist print edition

New figures show that industrial production has slowed sharply in Asia. **Singapore's** output grew by only 1.7% in the 12 months to May, down from growth of 19.6% a year ago. **South Korea's** growth slowed from 13.9% to 4.3% over the same period. **Taiwan's** output fell by 1.4% in the year to May, compared with growth of 16.4% a year earlier.

Mexico's 12-month trade deficit widened to $9.9 billion in May—its biggest since 2001. The rise in the peso over the past year has reduced exporters' competitiveness.

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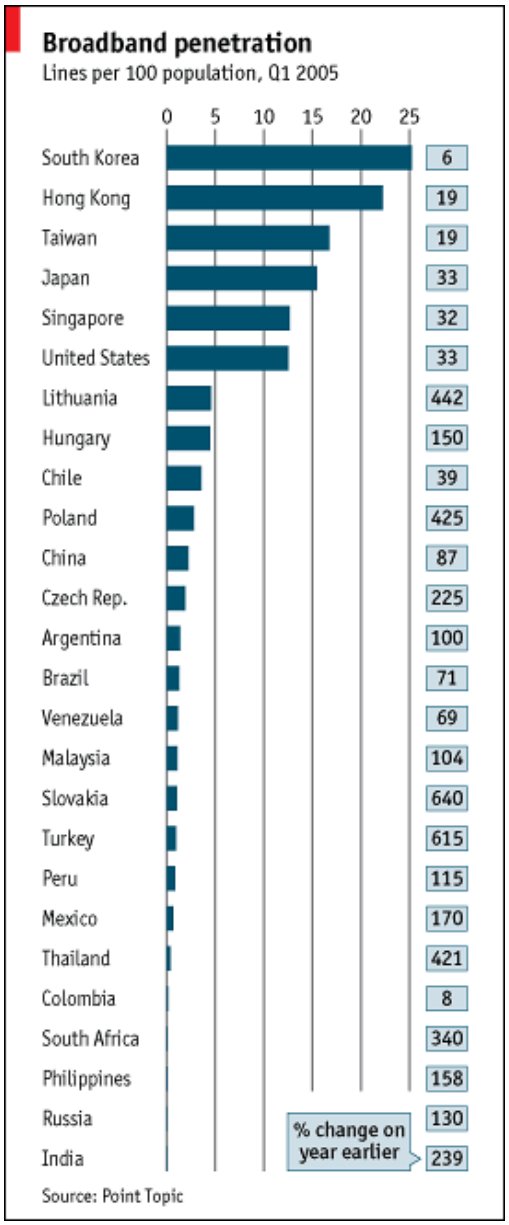
Broadband penetration

Jun 30th 2005
From The Economist print edition

Demand for broadband connections is booming in the developing world, growing by 100% or more each year in many countries. In the developed world, meanwhile, growth has slowed to mere double-digit rates, according to Point Topic, a market-research firm. Separate figures from iSuppli, another market-research firm, suggest that global broadband growth peaked in 2004 at 52%, and will slow to 31% this year.



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Economy

Jun 30th 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q1	+16.6	May	+ 1.8	May	+71.1	May	+68.7	2004	659.1	Mar
Hong Kong	+ 6.0	Q1	– 0.6	Q1	+ 0.8	May	–10.2	Apr	+18.5	Q1	122.4	May
India	+ 7.0	Q1	+ 8.8	Apr	+ 5.0	Apr	–30.6	May	– 3.9	Q4	134.0	May
Indonesia	+ 6.4	Q1	+10.1	Mar	+ 7.4	May	+27.5	Apr	+ 2.9	Q4	35.1	Apr
Malaysia	+ 5.7	Q1	+ 6.8	Apr	+ 3.1	May	+23.3	Apr	+16.7	Q1	73.0	Apr
Philippines	+ 4.6	Q1	+ 2.8	Mar	+ 8.5	May	nil	Mar	+ 2.9	Mar	14.8	May
Singapore	+ 2.5	Q1	+ 1.7	May	nil	May	+16.6	May	+29.2	Q1	116.0	May
South Korea	+ 2.7	Q1	+ 4.3	May	+ 3.1	May	+27.6	May	+23.0	May	206.0	May
Taiwan	+ 2.5	Q1	– 1.4	May	+ 2.3	May	+ 2.6	May	+16.9	Q1	253.2	May
Thailand	+ 3.3	Q1	+ 5.1	Apr	+ 3.7	May	– 3.2	Apr	+ 2.0	Apr	48.1	Apr
Argentina	+ 8.0	Q1	+ 7.4	Apr	+ 8.6	May	+11.6	Apr	+ 3.0	Q4	20.1	Apr
Brazil	+ 2.9	Q1	+ 6.3	Apr	+ 8.1	May	+38.1	May	+13.4	May	61.1	Apr
Chile	+ 5.7	Q1	+10.1	Apr	+ 2.7	May	+ 8.6	May	+ 1.1	Q1	17.3	May
Colombia	+ 3.6	Q1	+ 4.5	Apr	+ 5.0	May	+ 0.8	Jan	– 1.1	Q4	12.2	May
Mexico	+ 2.4	Q1	+ 5.2	Apr	+ 4.6	May	– 9.9	May	– 8.7	Q1	62.8	Apr
Peru	+ 6.4	Apr	+ 7.1	Apr	+ 1.8	May	+ 3.3	Apr	+ 0.4	Q1	12.8	Apr
Venezuela	+ 7.9	Q1	+ 0.1	Mar	+17.4	May	+22.6	Q1	+14.9	Q1	19.9	Mar
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 5.6	Mar	– 9.0	Q4	+ 4.3	Q4	16.8	Apr
Israel	+ 4.1	Q1	+12.8	Apr	+ 0.2	May	– 7.2	May	+ 1.9	Q1	26.5	May
South Africa	+ 4.2	Q1	+ 7.1	Apr	+ 3.3	May	– 2.1	Apr	– 8.5	Q1	15.5	May
Czech Republic	+ 4.4	Q1	+ 5.7	Apr	+ 1.3	May	+ 0.5	Apr	– 4.4	Q1	27.1	May
Hungary	+ 2.9	Q1	+ 8.9	Apr	+ 3.6	May	– 2.7	Q1	– 9.2	Q1	17.5	May
Poland	+ 2.1	Q1	– 1.0	Apr	+ 2.5	May	– 4.9	Mar	– 2.8	Mar	39.3	Apr
Russia	+ 5.2	Q1	+ 1.4	May	+13.5	May	+101.0	Apr	+69.7	Q1	143.6	May
Turkey	+ 4.8	Q1	+ 5.1	Apr	+ 8.7	May	–36.3	Apr	–17.2	Apr	37.3	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 7.2	Q1	+ 8.4	May	+ 2.8	May	– 2.4	Apr	– 1.3	Apr	1.7	Apr
Latvia	+ 7.4	Q1	+ 4.3	Apr	+ 6.3	May	– 3.0	Apr	– 1.6	Apr	2.0	Apr
Lithuania	+ 5.6	Q1	na		+ 2.0	May	– 3.0	Apr	– 1.6	Q4	3.6	Apr
Slovakia	+ 5.1	Q1	+ 5.1	Apr	+ 2.4	May	– 1.9	Apr	– 1.8	Mar	17.6	Apr
Slovenia	+ 2.6	Q1	+ 3.7	Apr	+ 2.2	May	– 1.4	Apr	– 0.2	Apr	8.4	Mar
Pakistan	+ 6.4	2004†	+28.3	Nov	+ 9.8	May	– 6.2	May	– 1.5	Q1	10.7	Apr
Saudi Arabia	+ 5.2	2004	na		+ 0.6	Mar	+84.9	2004	+51.5	2004	22.9	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jun 30th 2005
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 29th		Dec 31st 2004	
	Jun 29th	year ago	Jun 29th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	14.9	2.30	1,160.5	+3.0	– 12.8	– 12.8
Hong Kong	7.77	7.80	14.0	3.36	14,277.3	+2.6	+ 0.3	+ 0.3
India	43.6	46.0	78.6	5.31	7,119.9	–0.4	+ 7.8	+ 7.6
Indonesia	9,718	9,403	17,537	8.44	1,126.9	–0.7	+ 12.7	+ 7.6
Malaysia	3.80	3.80	6.86	2.87	890.0	–1.5	– 1.9	– 1.9
Philippines	56.0	56.2	101.0	5.88	1,945.1	–0.7	+ 6.7	+ 7.0
Singapore	1.69	1.72	3.04	2.06	2,202.3	–0.2	+ 6.6	+ 3.2
South Korea	1,027	1,156	1,853	3.52	999.1	–0.3	+ 11.5	+ 12.5
Taiwan	31.6	33.6	57.0	1.40	6,231.7	–2.0	+ 1.5	+ 1.8
Thailand	41.4	40.9	74.6	2.75	685.6	–0.1	+ 2.6	– 3.6
Argentina	2.90	2.96	5.23	6.94	1,374.6	–6.2	– 0.1	+ 2.6
Brazil	2.35	3.10	4.24	19.74	25,126.4	–2.1	– 4.1	+ 8.4
Chile	579	636	1,044	4.08	9,564.7	–0.2	+ 6.7	+ 2.5
Colombia	2,330	2,693	4,205	7.18	5,492.9	+2.6	+ 26.4	+ 27.6
Mexico	10.8	11.5	19.4	9.61	13,550.1	+0.8	+ 4.9	+ 8.7
Peru	3.25	3.47	5.87	3.02	4,041.0	–0.5	+ 8.9	+ 9.7
Venezuela	2,621§	2,601§	4,731	11.85	21,592.4	+0.1	– 27.9	– 29.1
Egypt	5.79	6.19	10.45	8.39	41,824.3	–0.5	+ 70.1	+ 78.3
Israel	4.57	4.50	8.25	3.68	659.6	–1.9	+ 2.4	– 3.2
South Africa	6.69	6.22	12.1	7.06	14,183.5	–0.9	+ 12.1	– 5.7
Czech Republic	24.9	26.2	45.0	1.74	1,207.9	–1.0	+ 17.0	+ 4.9
Hungary	205	206	371	6.85	18,617.6	–0.5	+ 26.3	+ 11.2
Poland	3.36	3.70	6.06	5.05	28,106.2	–1.0	+ 5.5	– 5.9
Russia	28.7	29.1	51.8	13.00	698.4‡	+0.4	+ 17.7	+ 13.7
Turkey	1.34	1.48	2.42	16.55	27,135.9	+1.3	+ 8.7	+ 9.2
EM (MSCI)*	1.00	1.00	1.80	na	565.4	–1.2	+ 4.3	+ 4.3
EMBI+†	1.00	1.00	1.80	na	346.4	+0.1	+ 5.1	+ 5.1

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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